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# The Concept and Practice of Representative Democracy in Post-Communist Eastern Europe

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THE CONCEPT AND PRACTICE OF REPRESENTATIVE DEMOCRACY  
IN POST-COMMUNIST EASTERN EUROPE

by

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## **ABSTRACT**

### **THE CONCEPT AND PRACTICE OF REPRESENTATIVE DEMOCRACY IN POST-COMMUNIST EASTERN EUROPE**

**Georgeta V. Pourchot  
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Director: Dr. Simon Serfaty**

Using the concept of representation, this study advances a comparative interpretive analysis which makes use of hard statistical data and soft data to assess the direction of democratization in Eastern Europe between 1990 and 1998. Specifically, the study looks at how governments in Eastern Europe chose to heed constituencies' calls for the institution of a market economy, and analyzes the degree of government responsiveness towards constituencies. The study finds that the region is moving towards a more responsible and responsive type of governance, but at different paces and degrees. Poland leads with respect to government responsiveness. The Czech Republic displays signs of elitist responsiveness. Hungary is also moving in the direction of responsive governance. Events in the Slovak Republic, Bulgaria and Romania have been too unsettled to conduct a meaningful analysis of government responsiveness at this time.

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## TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION.....	1
BACKGROUND.....	4
THE CONCEPT OF REPRESENTATION.....	8
METHODOLOGY.....	13
PLAN OF STUDY.....	18
II. REPRESENTATIVE DEMOCRACY: THE BEGINNING OF THE JOURNEY.....	27
ANCIENT GREECE: WHAT IT MEANT TO BE A DEMOCRAT.....	29
A HISTORICAL GAP.....	31
FROM HOBBS TO MILL: DEFINING DEMOCRACY AND REPRESENTATION.....	33
UTILITARIANISM AND REPRESENTATION.....	44
REPRESENTATIVE DEMOCRACY'S JOURNEY: PRELIMINARY OBSERVATIONS.....	51
III. REPRESENTATIVE DEMOCRACY: MEASUREMENT ISSUES IN TRADITIONAL DEMOCRACIES AND IN EASTERN EUROPE.....	59
OPINIONS, PUBLICS AND POLICIES: THE CONCEPTUAL DILEMMA.....	59
THE CONGRUENCE MODEL.....	60
EASTERN EUROPE: TERMS OF ANALYSIS.....	70
IV. ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: THE CZECH REPUBLIC.....	101
INTRODUCTION AND BACKGROUND.....	101
TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS.....	103
GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS.....	112
GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT.....	121
CONCLUSIONS.....	126
V. ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: HUNGARY.....	132
INTRODUCTION AND BACKGROUND.....	132

Chapter	Page
TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS.....	137
GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS.....	143
GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT.....	149
CONCLUSIONS.....	154
<b>VI. ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: POLAND.....</b>	<b>159</b>
INTRODUCTION AND BACKGROUND.....	159
TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS.....	165
GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS.....	171
GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT.....	179
CONCLUSIONS.....	186
<b>VII. ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: THE SLOVAK REPUBLIC.....</b>	<b>189</b>
INTRODUCTION AND BACKGROUND.....	189
TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS.....	195
GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS.....	202
GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT.....	208
CONCLUSIONS.....	212
<b>VIII. ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: BULGARIA AND ROMANIA .....</b>	<b>217</b>
BACKGROUND.....	217
BULGARIA.....	218
ROMANIA .....	225
<b>IX. THE CONCEPT AND PRACTICE OF REPRESENTATION IN EASTERN EUROPE: CONCLUSIONS.....</b>	<b>234</b>
THEORETICAL CONCLUSIONS.....	235
METHODOLOGICAL CONCLUSIONS.....	249
REGION SPECIFIC CONCLUSIONS.....	252

	Page
BIBLIOGRAPHY.....	264
VITA.....	283

## LIST OF TABLES

Table	Page
1. Public opinion on the creation of a free market economy.....	78
2. Czech Republic: Indicators of progress in transition to a market economy.....	106
3. Czech Republic: Macro-economic indicators.....	107
4. Czech Republic: Public opinion on financial situation in the household for the next 12 months.....	117
5. Czech parliamentary election results (1992-98).....	122
6. Hungary: Indicators of progress in transition to a market economy.....	138
7. Hungary: Macro-economic indicators.....	141
8. Hungary: Public opinion on financial situation in household.....	148
9. Hungary parliamentary election results (1990-98).....	149
10. Poland: Indicators of progress in transition to a market economy.....	165
11. Poland: Macro-economic indicators.....	169
12. Poland: Public opinion on financial situation in the household.....	177
13. Polish parliamentary election results (1991-97).....	180
14. Slovak Republic: Indicators of progress in transition to a market economy.....	196
15. Slovak Republic: Macro-economic indicators.....	200
16. Slovak Republic: Public opinion on financial situation in the household.....	207
17. Slovak parliamentary election results (1994-98).....	209
18. Bulgaria: Indicators of progress in transition to a market economy.....	220

<b>Table</b>	<b>Page</b>
19. Bulgaria: Macro-economic indicators.....	222
20. Romania: Indicators of progress in transition to a market economy.....	227
21. Romania: Macro-economic indicators.....	229
22. Variables affecting representation in Eastern Europe.....	260

## LIST OF FIGURES

Figure	Page
1. The Miller -Stokes “Diamond” .....	62
2. The Responsive Government Matrix.....	68
3. The Responsive Party Matrix.....	69
4. The Burkean Matrix.....	69
5. Percentage Change in Gross Domestic Product in Eastern Europe.....	81
6. Czech Republic: Public Support and Policy Outcomes.....	113
7. Czech Republic: Dynamics of Public Opinion on Support for the Introduction of a Market Economy.....	115
8. Czech Republic: Public Support for a Market Economy and Satisfaction with Democracy.....	125
9. Hungary: Public Support and Policy Outcomes.....	144
10. Hungary: Dynamics of Public Opinion on Support for the Introduction of a Market Economy.....	146
11. Hungary: Public Support for a Market Economy and Satisfaction with Democracy.....	154
12. Poland: Public Support and Policy Outcomes.....	172
13. Poland: Dynamics of Public Opinion on Support for the Introduction of a Market Economy.....	173
14. Poland: Public Support for a Market Economy and Satisfaction with Democracy.....	185
15. Slovak Republic: Public Support and Policy Outcomes.....	202
16. Slovak Republic: Dynamics of Public Opinion on Support for the Introduction of a Market Economy.....	206

Figure	Page
17. Slovak Republic: Public Support for a Market Economy and Satisfaction with Democracy.....	210
18. Bulgaria: Public Support and Policy Outcomes.....	223
19. Romania: Public Support and Policy Outcomes.....	231



## CHAPTER I

### INTRODUCTION

From declaring Western democracy's moral victory over communism in 1989, to considering post-communist societies still far from joining West European democracies, ten years after the collapse of communism question marks remain with respect to the direction of democracy in the region. Some countries from the former communist bloc, like the Czech Republic, Hungary, and Poland, have advanced politically and economically towards a distinguishable form of democracy and a market economy. Others, such as the Slovak Republic, have witnessed contradictory trends, from moving towards a more open political and economic environment to regressing into authoritarian tendencies. Yet others, like Bulgaria and Romania, have witnessed more regress than progress in their attempt to democratize. This situation left analysts with two legitimate questions: What are the differentiating factors affecting democratizing processes in Eastern Europe, and what analytical tools should be used in order to draw meaningful conclusions about the direction of democratization in the region? This study uses the concept of representation to address these questions.

Academic controversies persist around the concept of "representation," with one seeming point of agreement: there is conceptual and methodological differentiation between the American and the European understanding of representation. The American way focuses on a bottom-up approach to representation, with constituencies

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giving mandates to their representatives and representatives implementing those mandates when they get elected.<sup>1</sup> The European way focuses on a top-down approach, with responsible and disciplined parties offering election agendas to their constituencies and then attempting to carry out those agendas when they get elected.<sup>2</sup>

Between these two poles, a wealth of literature focuses on various aspects of representation: from the proper way to conceptualize the elements of analysis to the appropriate tools to carry out empirical research.<sup>3</sup> Irrespective of on-going controversies, the notion that individuals elected or appointed to perform a public duty have an obligation to “act in the interest of the represented, in a manner responsive to them” is widely accepted to be a basic tenet of democracy.<sup>4</sup>

The choice of representation as analytical tool to address the direction of political developments in Eastern Europe is grounded in two reasons.

First, it offers the researcher an ideal of government behavior against which to judge the direction of democratization in the region. This ideal is considered very important by this researcher; Eastern Europe spent half a century under totalitarian rule, and many of the leaders freely elected to office between 1990 and 1998 were raised in beliefs incompatible with a liberal and representative type of governance. To the extent that these leaders manifested a willingness to adapt to the requirements of a representative democracy, it is essential to acknowledge the change of direction in East European politics.

Second, analyses of representative democracy in Eastern Europe are scarce to nonexistent. Availability of comparative data and uncertainty about what the data

actually measures are two common reasons why this type of analysis is not attempted more often.

This study opens the door for an interpretive analysis of the direction of democracy in the region. The analysis combines the use of soft and hard data to interpret the conflicting trends in the region, rather than confirm or infirm known models of analysis. The study is therefore intended to encourage a statistically modest approach to the study of developments in the region. Given the uncertainties about the actual meaning of hard data, existing statistical analyses can be enriched with the approach proposed in this study, to the betterment of our understanding of where Eastern Europe stands and where it is headed.

The key issue of representation is the relationship between government action and constituency preferences on given issues. In the spirit of this core issue, it is time to ask if post-communist East European governments acted in the interest of those they represented, in a manner responsive to their constituencies in the past decade since the collapse of communism.

The policy issue selected for study is government policy on the question of the introduction of a market economy. The broad questions to be addressed are: Did governments in the region heed to public calls for the introduction of a market economy? Is there an observable relationship between government policy-making and opinion trends on the selected question? Does that observable relationship qualify as representative of constituency interests? The answers to these questions will be the focus of this analysis.

## BACKGROUND

The debate over Eastern Europe went through several stages within the past ten years since the collapse of communism. In so doing, questions of democratic theory, method, and regional specificity were touched upon either on purpose or in conjunction with larger issues of transition.

In the early nineties, the debate focused on the moral victory of Western democracy over communism. Implicit in that debate was the victory of the Western political and economic system over the command economy of the socialist system. Issues of the superiority of a market economic system were central to that debate.

If prior to the collapse of communism East European leaders could claim the superiority of the command economy as a fair system which did not produce unemployment and inequality, that argument could no longer be made once the Iron Curtain was lifted. The widespread poverty and inequality found at all levels of social interaction in Eastern Europe, as well as the deleterious effects of planning the economy were too evident to be concealed or explained away. As a result, in the early nineties, the debates moved away from the question of which system was right, towards the question of how to make the political and economic system developed by Western democracies more right. In other words, with the renunciation of communism by Eastern Europe, and a few years later by the Soviet Union, the debate pitched advocates of a market economy against critics of the downsides and inequalities inherent in the system, rather than against advocates of the command economy.<sup>5</sup>

The main catalyst of these debates was whether there was a right way to democratize and to change the entire philosophic foundation on which a country's

system was built. While analysts and policy-makers alike agreed that there was no cookbook to recommend to Eastern Europe or the former Soviet Union states, everybody also agreed that there should be some rough guidelines to follow that would make the transition to a Western democracy and a market economy successful. Political negotiating style, economic liberalization preceding political opening, and no less important, the political culture of a particular country were all hypothesized to account for a higher or lower degree of success in the democratizing process.<sup>6</sup>

All the former communist countries held free elections; could they be declared democratic? Most former communist countries liberalized their economic policies, albeit at different paces; were they to be considered market economies? In mid-nineties, the debate moved to analyze specific characteristics of the East European transition to a market economic system.<sup>7</sup>

By 1996, international institutions and other donors conceded that early analyses misleadingly translated the success of transition in some countries as the automatic beginning of growth. “Transition” and “economic growth” were not the same thing, and a successful period of transition did not really mean that a market economy was established and functioning. In the 1995 *Transition Report* of the European Bank for Reconstruction and Development, development is defined as “the enhancement of the standards of living of individuals [through] command over resources, education and health,”<sup>8</sup> to be distinguished from “transition,” which is an extensive process of policies that take a market from a command to a market oriented economy.

Transition processes are socially painful, do not always produce rapid and widespread well-being, and can be undermined by public distrust if they fail to be conducive to economic growth. The 1998 *Transition Report* acknowledged that, irrespective of partial success or failure of markets in Eastern Europe, there was a growing gap between the degree of market liberalization and privatization, and institutional modernization that allows markets to function properly. Some countries performed tasks such as market liberalization and privatization faster than other countries; however they failed at establishing institutions that protected a market discipline and established a business environment conducive to growth and economic well-being for all. Additionally, there was an admission that the lack of attention to accompanying social policies to alleviate the effects of transition was likely to erode trust in democracy and a market economy.<sup>9</sup>

The social turmoil caused by transition policies was legitimate and real in all the countries in the region especially in mid-nineties, and raised questions about the appropriateness of adopting policies that hurt large numbers of people in all these countries. In mid-nineties, one of the first critics of governments' "tough economic policies" and "shock therapy" (where it applied) argued that the complex process of transition to democracy and a market economy had been left solely in the hands of economists and hence was only considered successful if the economists said so. In fact, Przeworski argued, if only economists gave guidelines for the transition policies, the social fabric that was to support the policies was likely to erode.<sup>10</sup>

Alarmingly, the mid-nineties witnessed the voting out of popular figures considered to be pro-market, and the voting in office of former socialist and communist

leaders or political groups. In Poland, Lech Walesa lost his bid for re-election to a “communist,” Aleksander Kwasniewski, while Solidarity lost the parliamentary elections to the Democratic Left Alliance, the former communist party reformed; in Hungary, the pro-market Hungarian Democratic Forum lost to the Hungarian Socialist Party, which was oriented towards more state-control over the economy; and in the Czech Republic, the Civic Democratic Party lost to the Social Democrats. In mid-nineties, Eastern Europe seemed to be turning towards the Left.

Ten years after the collapse of communism, we witness yet another metamorphosis of the debate over the direction of Eastern Europe. End of the century assessments of the direction of democracy in Eastern Europe, as well as in other emerging democracies throughout the world argue that we are witnessing a new political phenomenon, the “rise of illiberal democracies” rather than the “globalization of democracy” as it was widely believed at the end of the Cold War.<sup>11</sup> It has been argued that free elections are being held in emerging democracies around the world, but that they sometimes bring to power extremist power players, with little respect for human rights or the rule of law, such as in the states of the former Yugoslavia. Markets are being liberalized, but the process of turning former state assets into private property leads to increased monopoly over resources by former communist *nomeklatura*. Should countries in which such phenomena occur be called democracies and emerging market economies? Or does the scholarly persistence in using established models of analysis obscure aspects of emerging markets that need a different analytical scrutiny? These assessments challenged the results of analyses of democratization and

cast yet another big question mark over the manner in which the scholarship persisted in their analytical orthodoxy.<sup>12</sup>

## THE CONCEPT OF REPRESENTATION

The concept of "representation" offers an attractive alternative analytical tool to researchers of Eastern Europe. It combines elements of procedural and normative democratic theory, and allows the researcher the luxury of looking at different angles of the same political phenomenon, in order to assess direction and depth of a particular act of representation.

Theories of democracy and democratization fall largely into two categories: those advocating the primacy of the democratic procedure (i.e. free elections), and those capitalizing on normative requirements (i.e. equal participation in political life, just distribution of resources). At stake is the relationship between governments and their constituencies in the pursuit of some general goal. Advocates of the procedural definition see constituencies as instrumental in the election of a governing body which decides social and political priorities. Promoters of normative approaches see governments as instrumental in the pursuit of people's aspirations for freedom, the achievement of the common good, and social justice. Both categories then analyze a political system polarized around "the people's representatives" and their activities.

Even when government responsiveness is largely accepted as a key indicator of a democratic society, defining the right tools to measure responsiveness empirically remains an unsettled issue in both North America and Western Europe. Few analysts of democracy would disagree with Key's observation that "governments ... must



concern themselves with public opinion ... they do not maintain their authority by brute force alone";<sup>13</sup> many also argue that conclusive causality between public opinion and government behavior, and/or policy-making has yet to be demonstrated.<sup>14</sup>

The difficulties in determining the appropriate analytical tools to measure causality eventually led the debate down a less ambitious path of assessing opinion-policy "direction."<sup>15</sup> Is there a popular mandate in a representative democracy that makes the system such a distinctively preferred form of governance? Do policy-makers tend to heed their constituencies' mandates? Or are there accidental instances of linkage between the public mandate and the policy-making which mask a manipulative political system that is no more representative than a totalitarian one? The policy-makers' disposition to act in accordance with, or in response to, public opinion, that is their "responsiveness" to public views replaced the debate over causality as a yardstick of representativeness of a government.<sup>16</sup>

A finding that policy-makers actually manipulate constituencies in what appears to be an act of representation of constituency interest may not shatter the foundations of a Western democracy. However, similar findings in a region that lived through more than four decades of government manipulation may indicate that constituencies in Eastern Europe merely traded one set of authoritarian leaders for another, albeit with more liberal views of political and economic rights. An assessment of the progress of democracy in the region must take into consideration government responsiveness to public opinion. The present project concerns itself with the direction of democracy in Eastern Europe from the standpoint of governments' willingness to "heed" the opinions of their citizens.<sup>17</sup>

To date, assessments of democracy's progress in Eastern Europe have paid surprisingly little attention to the question of government responsiveness to those they represent, their 'disposition' to implement policies largely favored in public opinion polls.<sup>18</sup> As previously noted, a large body of literature was spawned after the collapse of communism that focused on traditional analyses of transition to a new political regime over consolidation of political processes and institutions.<sup>19</sup> Occasionally, the need to create new analytical categories to account for the post-communist changes has been signaled.<sup>20</sup> Opinion research concerned itself with mass reaction to transition processes rather than with policy response to public opinion.<sup>21</sup> Occasional and isolated studies signaled that commitment to representation may be perfunctory in the region,<sup>22</sup> but were not followed by analyses of government responsiveness to their publics.

The seeming absence of representation analyses in post-communist Eastern Europe may be due to the valid objection that the application of "idealist standards" of analysis are inappropriate at this stage in the historical development of the region.<sup>23</sup> It has been argued that representative democracies are upgraded, modern stages of democracy honed by centuries of political development through trials and tribulations, and that evaluating emerging democracies by the same standards as older ones is misleading.

A similarly valid point can be made that Eastern Europe's forty-year legacy of government without accountability makes it doubly important to evaluate the direction of the public-government relationship. A political culture that worshiped the state as the sole guarantor of political, economic, and individual rights is in itself a threat to democratization processes that foster liberalization, decentralization, individual

enterprise and human rights. Schopflin and others have argued that political culture is the main obstacle to democratization in the region, and that some countries in the region would require several generations before any progress could be made towards democracy of Western flavor.<sup>24</sup>

The difficult process of economic transformation observed in the region since 1990, the recognized inertia of government institutional structures, and evident human rights abuses in some countries are good indicators that caution and modesty should guide any conclusions about the direction of democratic transformation of the region. Observed developments also indicate that government responsiveness to their constituencies should not be taken as a given.

The analysis of representation in Eastern Europe in this study is cross-country and cross-regional, drawing largely on Western conceptual and analytical models while allowing for regional and country specificity. Progress towards a representative democracy is evaluated by the examination of how governments in Eastern Europe represented their constituencies' mandate in one particular policy, the shift from a central-planned economy to the introduction of a market economy.

The selection of the introduction of a market economy as the benchmark policy to be addressed in relationship with public opinion support has strong domestic and international underpinnings.

After half a century of experiments with the central-planned economic system, the countries of Eastern Europe demanded radical change of their economic environments. They demanded a change for a better life, through the introduction of the economic system that was successful elsewhere. That was the market economic

system known in traditional democracies. The level of poverty of the populations across the region unveiled when the Iron Curtain was lifted, the lack of competitiveness of the planned economies, the widespread corruption brought about and maintained by the practices of a central system which sustained itself through deceit and fraud, were all reasons for the constituencies of Eastern Europe to strongly support the introduction of a market economy as a government priority, ahead of other government policies. It is then doubly important to analyze how and whether policies conducive to a market economy were introduced, and what their outcomes were in relation to the constituencies of the region.

Additionally, all the former communist countries have officially expressed interest in joining the European Union and some wish to join the Atlantic Alliance. For accession to occur, the member countries of these two powerful international players set criteria that need to be met by applicant countries before membership can be considered. The creation of a market economy is a top requirement for accession in both of these organizations.<sup>25</sup>

Within each country, public opinion support for the introduction of a market economic system is compared with policy outcomes in the actual introduction of the desired system over a period of eight years, between 1990-1998. Evaluation of the direction of policy are made on the basis of observed macro-economic trends and direction of transition, per available transition indicators.

## METHODOLOGY

Like many essentially contested political science concepts, political representation has unsolved theoretical aspects that are best reflected by the variety of methods used to measure the concept empirically. If the outcome of free elections was indeed a body of public servants that defended the interests of the voters, then both procedural and normative analysts would be satisfied that democracy were achieved. Free elections would satisfy the former, defense of public interests the latter. However, the large number of studies that attempt to establish analytical categories to measure representation empirically suggests that neither category of scholars is satisfied with the mere outcome of free elections as a means and end result of the democratic practice. The theoretical dilemma reflects on the selection of measurement categories, and analysts need to defend one course of analysis over another.

A minimum of two alternative working hypotheses can be derived from the literature: either public opinion influences government conduct, reflected in variations in policy or legislative outcomes in accordance with approval ratings on specific issues; or policy and legislative outcomes, dependent on categories other than public opinion result (or not) in popular support for the government.

It immediately seems apparent that the two approaches do not explain the same thing. The former hypothesis assesses degrees of government responsiveness illustrated by the change in government conduct in relation to public opinion; the latter explains government conduct in relation to social and political categories unrelated to public opinion. The former fits in the large category of “the American model” of representation. The latter hypothesis, the so-called “European model” of

representation, conceptualizes policy outcomes as results of categories such a party politics, social composition of legislatures, personal opinions that MPs hold, perceptions of what voters actually want, etc.

In the first case, legislative accountability, executive responsiveness, or leadership are the occurring analytical categories used to measure degrees of congruence (read causality) between the public and its representatives. In the second case, socio-economic factors of elected MPs, party loyalties, party recruitment patterns, or personal perceptions of public opinion are categories used to measure specific policy outcomes. In the second case, the implicit and sometimes explicit conclusions are that congruence between publics and representatives cannot be a realistic expectation on the part of the researcher, or of the public, given that a host of processes having little to do with the will to represent are interposed between the public and their representatives.

The tensions between the two hypotheses go to the hard core of the democratic practice. If, as Americanists argue, the public merely reacts to policies and politicians lead voter opinion as some West-European analyses indicate, then the system should be characterized as elitist and non-responsive.<sup>26</sup> Europeanists argue that this type of reasoning is simplistic, and neglects to address the “black box” of intervening variables between voter reaction and policy-making. If the relationship between voters and their representatives is conceived and analyzed as a direct line between two poles, a multitude of processes that follow elections and precede policy outcomes remain unaddressed. MPs, Europeanists argue, are influenced in their work by processes taking place in the parliament, by party politics and protocols, by their own biases and beliefs, or by their own perceptions of what the voters want. If that is the case, then

the analysis of representation should not focus on causality between public opinion and policy outcome but rather on the strength of various factors in the policy and legislative process-making.<sup>27</sup>

Evidently, such arguments make the methodological decision even harder. How is one to study empirically the relationship between government conduct and public opinion? If the West-European researchers (and some American ones as well) are correct, analyzing causality is the wrong approach to assess a society's degree of democratization. The analysis of party politics provides answers to the shape and direction of policy-making, and the analysis of the manner in which M.P.s "sell" their product to the public explains public support for policies.

However, even if we accept Lippmann's position that the public tends to be an ignorant and politically passive actor in the policy-making process, the above position does not explain political representation, and changes the shape of the analytical model in a way that does not do justice to political processes that tend to fit the congruence model. In this study, the view is taken that in order for a political system to be called a representative democracy, some degree of government responsiveness to public opinion must exist.

### **Working Hypotheses, Variables and Indicators**

If the intention of the present analysis was to measure degrees of government representation in a Western democracy, the following clusters of hypotheses could be inferred from the literature: if representative democracy, then responsive government. If responsive government, then causality between government policy and public

opinion. If causality, as approval ratings on specific issues go up (over a period of time), a government initiates or adopts policies to support and implement public preferences on given issues.

However, this is not an analysis of a Western democracy, and standards of representation should be applied with caution to countries with unsettled types of political arrangements. In Eastern Europe, all we can hope for is an indication that public opinion and policy outcome trends go in the same direction, most of the time. Should that be the case, a modest initial assessment can be made that Eastern Europe is moving in the direction of building a representative type of governance.

This study approaches the representation analysis in Eastern Europe from a comparative perspective that borrows from Western models but allows room for specificity in interpretation. Public opinion support for the introduction of a market economy is compared with actual government policy outcomes over a period of eight years.

Within each country and across the region trend analyses are offered, with particular attention to domestic specifics of opinion change. Trends in public opinion are illustrated by line charts indicating direction of change between 1990 and 1997. Direction of policy outcomes is charted based on macro-economic indicators of economic performance, and indicators of progress in transition towards a market economy are drawn from data available from the European Bank for Reconstruction and European Union Annual Reports.

The line charts of public support and policy trends are thereafter superimposed, to observe whether the two variables are related in any manner. For each country, an



opinion-policy line chart is designed, and observations on the nature of the relationship between the two variables are inferred. Across the region trends are also discussed, especially in light of the fact that some of the countries under analysis started their reform in a more aggressive and determined manner than others.

A final section within each country study looks at election outcomes over the same period, to observe public reaction to government performance. Although election results are means to gauge after-the-fact accountability and are not considered very reliable indicators of an opinion-policy relationship, they are important for the assessment of constituency maturity in Eastern Europe. Even in Western democracies, constituencies tend to be regarded as immature and not knowledgeable of political processes. In Eastern Europe, such a reality would be deadly for the establishment of democracy. Electorate response to government performance is a critical component of democracy-building and could easily become the driving force of change in the region. In this final section, we are interested to see whether the public is 'punishing' policy-makers for not fulfilling their mandate and voting them out of office, or whether mandates are renewed based on performance.

### Data

For each of the six countries, public opinion data is available between 1990-1997 on the pace and direction of economic reform from the *Central and Eastern Eurobarometer*.<sup>28</sup> The *New Democracies Barometer* questionnaires did not ask a specific question on the desirability of the introduction of a market economy. However, the survey asked a variety of questions to tap into the respondents' views on

market economy in general. These surveys are used wherever necessary to the analysis, to complement *Eurobarometer* findings.<sup>29</sup> The variation in methodology between the two surveys does not allow the use of some median value, but in cases where the direction of the trend is radically different, a discussion follows.

For the direction and outcome of government reform, indicators of progress of transition, as well as macro-economic indicators are available from the European Bank for Reconstruction.<sup>30</sup> Additionally, evaluations by the European Commission of the progress of applicant countries towards a functioning democracy will be discussed.

## PLAN OF STUDY

The analysis is pursued in six chapters. Chapter II presents a journey through the concept and practice of representative democracy into the twentieth century. Since disputable agreement has been made regarding conceptual and analytical characteristics of representative democracy, a summary of the main theoretical points of contention is useful in order to build a relevant analysis for Eastern Europe. Debates over the meaning of representation are presented, with observations regarding the relevance and usefulness of several concepts for assessing democracy's direction in Eastern Europe.

Chapter III addresses issues of method in the study of traditional representative democracies, and offers an analytical framework to interpret the dynamics of government responsiveness and public support in Eastern Europe. The terms of analysis of policy-opinion direction are introduced, and models of analysis are evaluated. General trends in the East European constituencies' demands for a market economy and their governments' policies to meet those demands are presented. The

chapter sets the background for individual country analyses, and formulates hypotheses that facilitate interpretation of events.

Chapters IV through VII are country studies. The relationship between opinion support and government policy is analyzed in the Czech Republic (chapter four), Hungary (chapter five), Poland (chapter six), and the Slovak Republic (chapter seven). These are the so-called ‘front-runner’ countries in the introduction of reform of their economic systems, where the transformation to a market system took a more recognizable shape. An analysis of representation in these countries from the standpoint of the introduction of a market economy is justified by the governments’ efforts to meet public expectations.

The same willingness to reform could not be observed in Bulgaria and Romania. Economic reform was slow in both countries, and political indecision and instability delayed economic transformation. Chapter VIII briefly addresses conditions of systemic transformation in Bulgaria and Romania, with the conclusion that an analysis of representation is not yet appropriate in these countries.

Chapter IX offers conclusions about representation in Eastern Europe based on observed trends. Three kinds of conclusions are offered. First, theoretical conclusions address the question of the appropriateness of applying conceptual assumptions inherent in analyses of traditional democracies to analyses of Eastern Europe. Second, methodological conclusions address the appropriateness of using analytical models of representation specific to traditional democracies to analyze Eastern Europe. Third, regionally specific conclusions identify variables affecting representation in the region and offer predictions of future development of representation based on observed trends.

## NOTES TO CHAPTER I

1. The most famous study of this kind was elaborated by Warren E. Miller and Donald E. Stokes, "Constituency Influence in Congress," *American Political Science Review*, Vol. 57 (1963), pp. 45-56.
2. See Philip E. Converse and Roy Pierce, *Political Representation in France* (Cambridge, Mass.: Harvard University, Belknap Press, 1986).
3. See Christopher H. Achen, "Measuring Representation: Perils of the Correlation Coefficient," *American Political Science Review*, Vol. 71, No. 4 (1977), pp. 805-815; Peter Esaiasson and Sören Holmberg, *Representation from Above: Members of Parliament and Representative Democracy in Sweden*, trans., Janet Westerlund, ed., Peter Mayers (London: Dartmouth, 1996); Heinz Eulau, "The Congruence Model Revisited," *Legislative Studies Quarterly*, Vol. 12 (May 2, 1987), pp. 171-214; Morris P. Fiorina, "The Decline of Collective Responsibility in American Politics," *Daedalus*, No. 109 (1980), pp. 25-46.
4. Hanna Fenichel Pitkin, *The Concept of Representation* (Berkeley: University of California Press, 1967), p. 209.
5. A good summary of the debate between critics and advocates of Western democracy prior to the collapse of communism is Robert A. Dahl, *Democracy and Its Critics* (New Haven, Conn.: Yale University Press, 1989). After 1989, Philippe Schmitter captured the gist of how the debate shifted due to the collapse of communism as follows: "Consider the irony: on the one hand, many countries on the world's periphery and semiperiphery have recently liberated themselves from various forms of autocracy and are desperately seeking to acquire the institutions of already established democracies; on the other, these advanced capitalist societies that have been practicing this form of political domination for some time are experiencing widespread disaffection with these very same institutions." See Philippe C. Schmitter, "The Irony of Modern Democracy and Efforts to Improve Its Practice," *Politics and Society*, Vol. 20, No. 4 (December 1992), p. 507. Debates over the quality of Western democracy continued into the early to mid-nineties, reflected in questions related to the different styles of democracy and the apparent "success" of some traditional democracies over the "breakdown" of others; see Eva Etzioni-Halevy, *The Elite Connection: Problems and Potential of Western Democracy* (Cambridge, Mass.: Polity Press, 1993); National Research Council, Commission on Behavioral and Social Sciences and Education, *The Transition to Democracy: Proceedings of A Workshop* (Washington, D.C.: National Academy Press, 1991); Ivo Colozzi, "Ethics and Democracy: Beyond the Crises of Political Modernity," *Studi di Sociologia* (Bologna), Vol. 31, No. 2 (April-June 1993), pp. 207-224.

6. Giuseppe Di Palma, *To Craft Democracies: An Essay on Democratic Transitions* (Berkeley: University of California Press, 1990); Guillermo O'Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore and London: John Hopkins University Press, 1991); George Schopflin, "The Political Tradition of Eastern Europe," *Daedalus*, No. 1 (Winter 1990), pp. 55-90. Helga Welsh, "Political Transition Processes in Central and Eastern Europe," *Comparative Politics* (July 1994), pp. 379-394.
7. For the economic and social ills inherited by Eastern Europe from socialism and communism, see Stanley Fischer, *Privatization in East European Transformation*, Working Paper No. 3703 (Cambridge, Mass.: National Bureau of Economic Research, May 1991.); For a rebuttal, see Alan Abouchar, "The Soviet Economy: Whence. Where. Wither? Why?" *Comparative Economic Studies*, Vol. 3 (1991), pp. 67-93; for a summary of debates, see Jozef M. van Brabant, *Privatizing Eastern Europe: The Role of Markets and Ownership in the Transition* (Dordrecht-Boston-London: Kluwer Academic Publishers, 1992).
8. European Bank for Reconstruction and Development, *Transition Report 1995: Investment and Enterprise Development* (London: EBRD, 1995), p. 2.
9. European Bank for Reconstruction and Development, *Transition Report 1998: Financial Sector in Transition* (London: EBRD, 1998), p. iv.
10. Adam Preworski, "Economic Reform, Public Opinion, and Political Institutions: Poland in the Eastern Europe Perspective," in Luiz Carlos Bresser Pereira, José Maria Maravall, and Adam Przeworski, *Economic Reforms in New Democracies: A Social-Democratic Approach* (Cambridge, UK: Cambridge University Press, 1993), pp. 134-137.
11. Signs of trouble with the substance of democratic politics "as we know it in the West" were recorded as early as 1993. Jane Curry argued that traditional notions of pluralism, understood largely to mean "a balance of power among overlapping economic, religious, ethnic and geographic groupings," each with a power to shape "socially binding decisions," was not a practice in Eastern Europe. She pointed out that "confrontation and avoidance" were the substance and end of politics, rather than "compromise" on essential issues to move societies towards open and democratic goals. Jane L. Curry, "Pluralism in Eastern Europe: Not Will It Last But What Is It?" *Communist and Post-Communist Studies*, Vol. 26, No. 4 (December 1993), pp. 446-447. Seven years after the demise of communism in the region, Fareed Zakaria argued that the world had in fact been witnessing the rise of a new political phenomenon which combined characteristics of traditional democracies, such as free elections, with features of illiberalism, such as lack of constitutionality and respect for basic freedoms. "Far from being a temporary or transitional stage, it appears that many countries are settling into a form of government that mixes a substantial degree of democracy with a substantial degree of illiberalism." Fareed Zakaria, "The Rise of Illiberal Democracy," *Foreign Affairs* (November/December 1997), p. 24.

12. Proponents of the theory of a rise of illiberal democracies are vigorously opposed by those who evaluate positively the changes in newly democratized societies. In early 1999, the *Journal of Democracy* dedicated a whole issue to the anniversary of the revolutions of 1989, their impact on global democracy, and their likely outcomes. Virtually all authors acknowledged the difficulties of Eastern Europe in building democracy, and none rejected the possibility that democratizing goals and aspirations may not be achieved within a generation. The most open challenge to Fareed Zakaria's famous article "The Rise of Illiberal Democracy" was undertaken by Adrian Karatnycky, president of Freedom House. In his contribution, he argued that Freedom House indicators of 1998 show a marked decline in the number of illiberal democracies and "an increase in the number and proportion of the world's electoral democracies that are also liberal." See Adrian Karatnycky, "The Decline of Illiberal Democracy," *Journal of Democracy*, Vol. 10, No. 1 (January 1999), pp. 112-125. Indirectly supporting this view is Richard Rose, "Another Great Transformation," *Journal of Democracy*, Vol. 10, No. 1 (January 1999), pp. 51-55. Another attempt to categorize the differentiated outcomes of transformation in the region is Jacques Rupnik, "The Postcommunist Divide," *Journal of Democracy*, Vol. 10, No. 1 (January 1999), pp. 57-63.
13. V.O. Key, Jr., *Public Opinion and American Democracy* (New York: Alfred A. Knopf, 1964), p. 412.
14. John C. Pierce et. al., *The Dynamics of American Public Opinion* (Glenview, Ill.: Scott, Foresman & Co., 1982), pp. 340-362; Dahl, *Democracy*; and David Held, *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance* (Stanford, Calif.: Stanford University Press, 1995).
15. Robert Weissberg, *Public Opinion and Popular Government* (New York: Prentice-Hall, 1976), pp. 81-93.
16. Alan D. Monroe, "Consistency Between Public Preferences and National Policy Decisions," *American Politics Quarterly*, Vol. 7 (January 1979), pp. 3-19; Arnold Heidenheimer et al., *Comparative Public Policy: The Politics of Social Choice in Europe and America* (New York: St. Martin's Press, 1975); Jerald G. Ruska and Ole Borre, "The Changing Party Space in Danish Voter Perceptions: 1971-1973," *European Journal of Political Research*, Vol. 2 (December 1974), pp. 102-130.
17. Key, p. 14.
18. Democracy's progress has been assessed as economic progress towards a market economy; Raymond M. Duch, "Economic Chaos and the Fragility of Democratic Transition in Former Communist Regimes," *Journal of Politics*, Vol. 57, No. 1 (February 1995), pp. 121-158; Janos Timar, "Particular Features of Employment and Unemployment in the Present Stage of Transformation of the Post-Socialist Countries," *Europe-Asia Studies*, Vol. 47, No. 4 (1995), pp. 633-649; Marvin Jackson and Wouter Biesbrouck, eds., *Marketization, Restructuring and Competition*

- in Transition Industries of Central and Eastern Europe* (Aldershot, UK: Avebury, 1995); and Marvin Jackson, Jenő Koltay, and Wouter Biesbrouck, eds., *Unemployment and Evolving Labor Markets in Central and Eastern Europe* (Aldershot, UK: Avebury, 1995). Democracy's progress has also been evaluated from the standpoint of East Europeans' ability to fill in the gap in political culture between their countries and Western democracies, in Schopflin, pp. 55-90; and in Stephen Fischer-Galați, "Political Culture in Eastern Europe: Romania as a Case Study of a General Phenomenon," in Joan Serafin, ed., *East-Central Europe in the 1990s* (Boulder, Colo.: Westview Press, 1994), pp. 137-160. Others have seen democracy possible only as a function of the ability to transfer power from one election to another peacefully, at a minimum twice, the so-called two-turnover test; Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman and London: University of Oklahoma Press, 1991), pp. 266-267. Finally, progress towards democracy has been evaluated as the political skill to negotiate a successful transition from authoritarian rule to a more open society; Welsh, pp. 379-394; Gretchen Casper and Michelle M. Taylor, *Negotiating Democracy: Transitions from Authoritarian Rule* (Pittsburgh, Pa.: University of Pittsburgh Press, 1996).
19. Andrew C. Janos, "Continuity and Change in Eastern Europe: Strategies of Post-Communist Politics," *East European Politics and Society*, Vol. 8, No. 1 (Winter 1994), pp. 1-31; Andrzej Korbonski, "The Decline and Rise of Pluralism in East Central Europe, 1949-1989, or How Not To See the Forest for the Trees," *Communist and Post-Communist Studies*, Vol. 26, No. 4 (December 1993), pp. 432-445.
  20. Grzegorz Ekiert, "Democratization Processes in East Central Europe: A Theoretical Reconsideration," *British Journal of Political Science*, No. 21 (1991), pp. 285-313; Andrew C. Janos, "Social Science, Communism, and the Dynamics of Political Change," *World Politics* (October 1991), pp. 81-112; Russell Bova, "Political Dynamics of the Post-Communist Transition: A Comparative Perspective," *World Politics* (October 1991), pp. 113-138; Philippe C. Schmitter and Terry Lynn Karl, "The Conceptual Travels of Transitologists and Consolidologists: How Far to the East Should They Go?" *Slavic Review*, Vol. 53, No. 1 (Spring 1994), pp. 173-185.
  21. Two major trend opinion surveys were commissioned across the region after the collapse of communism: the *Central and Eastern Eurobarometer* and the *New Democracies Barometer*. The standard *Eurobarometer* public opinion surveys have been conducted in the countries of the European Union every spring and fall since 1973 on behalf of Directorate General X for Information, Communication, Culture, Audiovisual of the European Commission. The *Central and Eastern Eurobarometer* was commissioned starting in the fall of 1990, when nationally representative surveys were undertaken for the European Commission in Bulgaria, Czechoslovakia, Hungary, and Poland. For the second wave of research, Albania, Estonia, Latvia, Lithuania, Romania, and Russia were included. With the third issue, countries of the

former Soviet Union and the former Yugoslav Republic of Macedonia were added. National representative samples of citizens fifteen years of age and older were interviewed face-to-face in their homes. The surveys were coordinated with the help of national policy research institutes, and the data processing was done in Germany. The *Central and Eastern Eurobarometer* was discontinued in 1998. The Vienna-based Paul Lazarsfeld Society has responded to the transformation of Central and Eastern Europe by organizing the *New Democracies Barometer*, a comprehensive research project to measure trends in public opinion across Eastern Europe. The first round of nationwide representative surveys was taken from November 1991 through February 1992. Subsequent annual surveys were held, enlarging the pool of countries surveyed as the transformation of the region expanded towards the former Soviet Union. Funding for the project comes from the Bundesministerium für Wissenschaft und Forschung, headed by the Austrian Vice-Chancellor, and from the research fund of the Oesterreichischen Nationalbank. The Lazarsfeld Society conducts the surveys in collaboration with Fessler & GfK and Mitropa, Vienna, and their affiliates in Central and Eastern Europe. Scientific analysis is carried out by Prof. Richard Rose, University of Strathclyde, and by Dr. Christian Haerpfer, Institut für Konfliktforschung, Vienna.

22. *Security for Europe Project: Final Report* (Providence, R.I.: Center for Foreign Policy Development, Thomas J. Watson Jr. Institute for International Studies, Brown University, 1993).
23. The “fundamental choice” in observing the direction of emerging democracies is not whether they “fit” idealist standards of democratic behavior, governance, or institutions, Rose and Haerpfer argue. The fundamental choice is between “a democratic or an undemocratic alternative. While none [of the countries in the former communist space] has yet reached the achievements of the most established democracies, all are more democratic or, in the case of Belarus, less democratic than a decade ago.” See Richard Rose and Christian Haerpfer, *Trends in Democracies and Markets: New Democracies Barometer 1991-98*, Studies in Public Policy, No. 308 (Glasgow: University of Strathclyde, Centre for the Study of Public Policy, 1998), p. 18.
24. See Schopflin, pp. 55-60. Also Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996); and Ilya Prizel, “The First Decade after the Collapse of Communism: Why Did Some Nations Succeed in their Political and Economic Transformations while Others Failed?” *SAIS Review* (Summer-Fall, 1999), pp.1-15.
25. *Study on NATO Enlargement*, NATO homepage <http://www.nato.int/docu/basicxt/enl-950.htm> (September 1995). In 1997, during the European Council meeting in Luxemburg, the European Commission was invited to draw up regular reports on the progress made toward accession by the candidate countries. Since 1998, *Agenda 2000* and *Regular Reports* were published, assessing progress in the political and economic criteria towards accession by the candidate countries. See



- European Commission, *Agenda 2000 Enlargement: Composite Paper 1998 on Progress Made by the Candidate Countries toward Accession*, Bulletin of the European Union, Supplement 4/98 (Luxemburg: Office for Official Publications of the European Communities, 1998); Commission of the European Communities (COM), *Composite Paper: Reports on Progress towards Accession by Each of the Candidate Countries*, COM 500 final (Luxemburg: Office for Official Publications of the European Communities, 1999). The existence of a “functioning market economy” is listed as the top priority for Eastern Europe; the capacity to “withstand competitive pressure and market forces” within the European Union comes second.
26. Miller and Stokes, pp. 45-46.
  27. The notion of “black box” belongs to Converse and Pierce. Both agree that the linkage between public opinion and the final legislative contribution of M.P.s is important in a democracy, but pioneer the view that the multitude of intervening variables between publics and representatives account for an apparently less responsive political system in France and other West European countries. More recently, Esaisson and Holmberg have argued that only after considering empirically testable variables such as social representation (SES), group membership, party recruitment, and opinion/perception making can one go as far as to consider the system elitist. See Esaisson and Holmberg, particularly chapter 1.
  28. *Central and Eastern Eurobarometer No. 1. Public Opinion in Central and Eastern Europe - 1990* (Jürgen Hofrichter, Inge Weller, Report Prepared on Behalf of “Surveys, Research, Analyses,” Unit, Directorate General X Audiovisual, Information, Communication, Culture (Brussels: Commission of the European Community, November 1991). *Central and Eastern Eurobarometer. Public Opinion about the European Community*, No. 2 (Brussels: Commission of the European Communities, January 1992). *Central and Eastern Eurobarometer. Public Opinion about the European Community*, No. 3 (Brussels: Commission of the European Communities, February 1993). *Central and Eastern Eurobarometer. Public Opinion and the European Union* (16 Countries' Survey), No. 4. Includes: Special Post-Election Russia Survey (Brussels: European Commission, March 1994). *Central and Eastern Eurobarometer. Public Opinion and the European Union* (18 Countries' Survey), No. 5 (Brussels: European Commission, March 1995). *Central and Eastern Eurobarometer. Public Opinion and the European Union* (19 Countries' Survey), No. 6 (Brussels: European Commission, March 1996). *Central and Eastern Eurobarometer. Public Opinion and the European Union* (20 Countries' Survey), No. 7 (Brussels: European Commission, March 1997). *Central and Eastern Eurobarometer. Public Opinion and the European Union* (10 Countries' Survey), No. 8 (Brussels: European Commission, March 1998). In 1998, the *Central and Eastern Eurobarometer* was discontinued.
  29. Data from the following surveys was used: Richard Rose and Christian Haerpfer, *New Democracies Between State and Market: A Baseline Report of Public Opinion*, Studies in Public Policy, No. 204 (Glasgow: University of Strathclyde, Centre for the

Study of Public Policy, 1992); Rose and Haerpfer, *Adapting to Transformation in Eastern Europe: New Democracies Barometer II*, Studies in Public Policy, No. 212 (Glasgow: University of Strathclyde, Centre for the Study of Public Policy, 1993); Rose and Haerpfer, *New Democracies Barometer III; Learning from What Is Happening*, Studies in Public Policy, No. 230 (Glasgow: University of Strathclyde, Centre for the Study of Public Policy, 1994); Rose and Haerpfer, *New Democracies Barometer IV; A 10-Nation Survey*, Studies in Public Policy, No 262 (Glasgow: University of Strathclyde, Centre for the Study of Public Policy, 1996); Rose and Haerpfer, *Trends in Democracies and Markets*.

30. European Bank for Reconstruction and Development (EBRD), *Transition Report 1994: Economic Transition in Eastern Europe and the Former Soviet Union* (London: EBRD, 1994); *Transition Report 1995*; *Transition Report 1996: Infrastructure and Savings* (London: EBRD, 1996); *Transition Report 1997: Enterprise Performance and Growth* (London: EBRD, 1997); *Transition Report 1998*.

## CHAPTER II

### REPRESENTATIVE DEMOCRACY: THE BEGINNING OF THE JOURNEY

The difficulty in assessing democracy's direction in Eastern Europe is both conceptual and methodological. It is dependent on and sensitive to Western scholarly and policy debates over meaning, method, and relevance. Democracy grew in Western Europe and in the United States over a period of two centuries, and developed differently in individual countries. To defend the undertaking of a representation analysis for Eastern Europe is to defend the choice of representative democracy over other models of democracy.

Two distinctive characteristics of representative democracy make this model an appropriate analytical tool to assess the direction of democratization in Eastern Europe: government accountability, and responsiveness. After living for a little less than half a century under authoritarian regimes, Eastern Europe needs to do more than develop the institutions of free elections. It needs to develop a new understanding of the role of the government and of elected representatives towards the people. The development of this new understanding, characterized by government accountability towards constituencies, and the inclination to heed to the people's voice can be best assessed within the framework of accountable and responsive governance that representative democracy offers.

As with many other politically contested concepts, inconclusive agreement has been made to date about the overall conceptual and analytical characteristics of representative democracy. However, elements of representation have been embedded in

many political arrangements since the dawn of mankind, some of which were not democratic. A summary of the conceptual journey of democracy since its beginnings into the twentieth century is useful and necessary in order to build a picture of the available theoretical dimensions for a representation analysis. It also helps the researcher track down elements of representation that have evolved over many centuries until they found expression in a political system called representative democracy. Finally, this picture helps with the identification of elements of analysis such as accountability and responsiveness that need to be part of modern analyses of the nature of emerging democratic political systems.

The conceptual journey of representative democracy presented in this chapter goes back briefly to ancient Greece and medieval times, then moves on to Hobbes into the twentieth century to offer insights into the main theoretical points of contention over meaning and methodology. Section one looks at the beginnings of democratic ideas and practice to see how and why the idea of popular government came into being in ancient times, particularly in Greece. Section two comments on the decline of democratic notions of governance between ancient times and the middle of the sixteenth century. The focus of the section is on the possible explanations for this decline and on the rejuvenation of democracy by the end of the period. Section three discusses the revival of democratic ideas and the main philosophical approaches to government-by-the-people into the eighteenth century. Section four discusses the finalization of democratic ideas and accepted practices on the eve of the twentieth century. A concluding section identifies major trends in philosophical thinking and core analytical characteristics of a representation analysis that are thereafter used in the analysis of the direction of democracy in Eastern Europe.

## ANCIENT GREECE: WHAT IT MEANT TO BE A DEMOCRAT

Dahl calls the political process that started in ancient Greek city-states roughly in the first half of the fifth century B.C. and then spread among Romans and other Italian cities the “first democratic transformation” in the history of humankind. The core idea of this transformation had to do with governance of the polis: after centuries of rule by tyrants and vicious rulers, the Athenian Greeks decided it was time to have a rule by the many instead of a rule by the few.<sup>1</sup> They called that rule *demokratia*, etymologically a combination of two Greek words, *demos*, meaning people, and *kratia*, meaning rule or authority. The first democratic transformation refers then to the historic shift from tyrannic or oligarchic rule of government to a government ruled by the people.

Despite scant primary sources to determine the nature of this initial type of democracy,<sup>2</sup> its main characteristics seem to have embodied both procedural and normative elements of political governance that are part of the modern practice of democracy. In the recorded history of the Peloponnesian war, we are told that all the Athenian citizens met in regular Assembly meetings, to discuss and decide together on laws and policies to benefit the largest numbers.<sup>3</sup> Citizens took turns to serve in office regularly, actively administering the affairs of the city.<sup>4</sup> Governance decisions were motivated by concerns of equality and fair treatment to all the citizens of the polis.<sup>5</sup> We can easily recognize in this sketch of decision-making processes desiderata for quality and fairness for the polity advocated in modern representative democracies.

A few elements of this initial democracy stand out as essentially different from modern democracy in a manner that is relevant to the discussion of representation. One is the question of citizenship.<sup>6</sup> While the notion that ‘all’ citizens of a city come together to

make decisions about the common good sounds not only ambitious but also appealing from a normative point of view, the reality of ancient Athens and of other Greek city-states was that citizenship was restrictive and exclusive. Not all the inhabitants of the polis were citizens; slaves, children, women, and long-term resident aliens such as the metics were excluded. Athenian citizenship was primarily a hereditary privilege conferred only to males based on ties of kinship, a feature hard to defend in the twentieth century. Metic families which lived in Athens for generations and contributed to the general well-being of the polis were denied rights of citizenship and of land and real estate ownership. They did enjoy a limited number of rights to protection in legal courts. Participatory politics were therefore restricted to a select group of people within the larger group of inhabitants that essentially made up the polis. Since the decisions adopted by a select group affected the larger whole, arguably Athenians had designed a type of political representation whether they acknowledged it or not.

Other characteristics of the Greek democracy are simply anachronistic and contain the seeds of a rule of people by the people that builds directly into the procedural representation model. The most evident anachronism of this kind is the issue of size of popular assemblies. Commonly referred to as ‘small-scale systems’, the city-state democracy of ancient Greeks could be a direct exertion of the rule of people precisely due to its small size, a feature which by no means can be replicated in modern nation-state democracies. Elections were performed in those times as well, but “from all among all.”<sup>7</sup> Direct participation was possible due to relatively small political entities organized as *demokratias* and was motivated by the belief that it would be unfair and unjust for some to decide on the affairs of all. Historians argue over the exact numbers of Athenian citizens

who must have been involved in the famous general assemblies.<sup>8</sup> Even if the size of the polis was in the thousands, subtracting the non-citizens and absentees would still make attendance fairly high. That feature evidently cannot apply to modern nation-state democracies, and could not apply to populations even less numerous than the twentieth century states, such as those of the Middle Ages.

The fact that the Greeks' organization was based primarily on the notion of city-state rather than on confederations of city-states allowed for direct participation in government and was no incentive to delegate power to representatives. However, the attractiveness of procedural and normative elements of government such as citizen participation, responsible decision-making, and quality and fairness of the political process can be seen in these early political arrangements. These elements of governance were to be revisited sixteen centuries later, when the historical stage became ready for them.

### A HISTORICAL GAP

Few analysts tackle heads-on the question of where the "concept" of democracy went between ancient Greece and the seventeenth century. Whether due to the rise of Christianity as an alternative view of authority, stratification of social classes, or a combination of political, social and religious factors, for more than sixteen centuries there is no record of any government attempt to build a type of governance remotely resembling democracy.<sup>9</sup> At the end of the sixteenth century, it became apparent that religion had become divisive and that the powers of the state should be separated from the duty of rulers to uphold any particular faith. At this juncture, the question of the relationship between governants and governed came to be considered from a radically

different light.<sup>10</sup> The Leveller Movement (1645–49) is recognized by critics as extraordinary not because of its achievements, but because of the unprecedented nature of its demands in the middle of the seventeenth century.<sup>11</sup> The Levellers' calls for equal treatment of all citizens and universal voting rights are principles of democratic representation commonly accepted at the end of the twentieth century;<sup>12</sup> they were unheard of and quite audacious only three hundred years before.

In the absence of a Foucauldian-like study that deconstructs the political discourse of over sixteen centuries, we need to allow for the possibility that the Leveller Movement was a historical instance along the continuum of democracy's conceptual journey.<sup>13</sup> We can toy with the idea that Aristotle's view of democracy as the "tyranny of the lawless multitude" may have turned off historical valves with respect to the value and appropriateness of democracy as a form of governance.<sup>14</sup> We find enough references to Aristotle's profound influence on the beginnings of civilization and long afterwards<sup>15</sup> to acknowledge this as a serious possibility as to why democracy needed to be "restored" or "rehabilitated" in the eighteenth century.<sup>16</sup>

However, developments prior to the Leveller movement indicate that the idea of democratic governance did not just make a come-back but evolved to the point where the Levellers' calls marked a more clear-cut break with past traditions. In Europe, the Middle Ages saw the rise of representative institutional structures serving decision-making processes that influenced and restricted the power of lords and kings. Only nobles were, however, worthy to have a say in these representative institutions.<sup>17</sup> The age of absolutism that followed witnessed the effects of unhindered royal power both in France and England; power abuses in levying taxes and in waging wars gave way to revolutionary



ideas and revolutions aimed at restricting the 'divine right of Kings to rule as they saw fit.' By the end of the Middle Ages, there was a strong feeling that within a political community, power should rest with a legitimate authority recognized and accepted by the entire community.<sup>18</sup>

The Levellers' calls for equal treatment of all citizens and universal suffrage did not, therefore, come out of nowhere; they did give the debate over the appropriate role of government a distinctive democratic thrust. That debate, formally initiated by Thomas Hobbes and launched in the middle of the seventeenth century emergence of nation-states continues to this day. The arguments and factors that sustain it are, among others, the proper role of a government, the duties and responsibilities of both governed and public officials, the relationship between electorate and its representatives, and the locus of decision-making.

#### FROM HOBBS TO MILL: DEFINING DEMOCRACY AND REPRESENTATION

While few theorists of democracy would dispute the fact that the history of democratic thought is hardly a model of philosophical consistency and coherence, most would agree to start the historical account of democracy's making with Thomas Hobbes (1588-1679). Writing at the juncture between the sixteenth century emergence of nation-states in Europe and the weakening of the faith in the absoluteness of the Christian model of leadership, Hobbes qualifies as the first modern philosopher.

Conversely, while most accounts of the roots of democratic thought start with Hobbes, few of them consider Hobbes' view of government fit to be mentioned in pages dealing with representation or representative government.<sup>19</sup> His famous theory of the state

of nature being the state of “war of all against all” where “notions of right and wrong, justice and injustice have no place,” and “force and fraud are the two cardinal virtues” cannot be accommodated within a theory of the rule of people by the people at first sight.<sup>20</sup> But, as Pitkin correctly makes the case, there is more to Hobbesian theory than just a bleak image of the future of mankind in the absence of the powerful protection of the Leviathan.

Hobbes’s theory of government is in fact a theory of representation with a strong authoritarian bend. In this vision, human beings cannot escape loss of life and property unless they thoroughly renounce their personal power to make choices and yield to the judgment and will of the powerful Leviathan.

The only way to erect such a common power, as may be able to defend them from the invasion of foreigners and the injuries of one another, and thereby to secure them in such a sort as that, by their own industry, and by the fruits of the earth, they may nourish themselves and live contentedly; is to confer all their power and strength upon one man, or upon one assembly of men, that may reduce all their wills, by plurality of voices, unto one will; which is as much as to say, to appoint one man, or assembly of men, to bear their person; and everyone to own and acknowledge himself to be author of whatsoever he that so beareth their person, shall act or cause to be acted in those things which concern the common peace and safety; and therein to submit their wills, everyone to his will, and their judgements, to his judgement....A commonwealth is said to be instituted, when a multitude of men do agree and covenant, everyone with everyone, that to whatsoever man, or assembly of men, shall be given by the major part the right to present the person of them all, that is to say, to be their representative.<sup>21</sup>

If we conclude our analysis of the Hobbesian view of representation at this particular juncture, his theory translates into something that modern critics may recognize as an acceptable, albeit incomplete definition of representative government. In modern terms, this theory can be enunciated as follows: the entire constituency agrees on the necessity to have an institutional body or a person entrusted with the exclusive right to

make decisions that affect the interests of all concerned. Since everybody agrees with this arrangement, free elections are superfluous.

The problem is, as some critics point out, that the Hobbesian theory of representation is inconsistent, not incomplete,<sup>22</sup> and to a good extent deceiving.<sup>23</sup> The act of bestowing all the rights to make decisions about one's life to the Leviathan may seem acceptable if, as modern thinkers would add, the Leviathan was committed and pledged to carry out his obligations, a core issue of modern representative democracies. But according to Hobbes, that does not follow. In his view, those who entrust the Leviathan with power over their lives and well-being are in fact also responsible for any action the Leviathan might take in their name. The Leviathan is never accountable and has no responsibilities towards those who entrusted him with their possessions and their lives, a view repudiated for the next generations of democratic theorists:

because the right of bearing the person of them all, is given to him they make sovereign, by covenant only of one to another, and not of him [Leviathan] to any of them; there can happen no breach of covenant on the part of the sovereign; and consequently none of his subjects...can be freed from his subjection.<sup>24</sup>

What so much bothered subsequent theorists of democratic governance was not necessarily the immense power acquired by the Leviathan or the virtually unhindered freedom to use it at his will; it was rather the absence of any accountability for the course of action that the Leviathan might take towards his subjects, while being *delegated* [in modern terms, elected] by them. Locke (1632-1704) in particular elaborated a view of the state of nature fundamentally opposed to the Hobbesian one, in which individual freedom is a given, and the constitution of a larger community under one government is an act of individual freedom and general responsibility.

For when any number of Men have, by the consent of every individual, made a *Community*, they have thereby made that *Community* one Body, with a Power to Act as one Body, which is only by the will and determination of the *majority*. For that which acts any Community, being only the consent of the individuals of it, and it being one body must move one way; it is necessary the Body should move that way whither the greater force carries it, which is the *consent of the majority*; and so everyone is bound by that consent to be concluded by the *majority*.<sup>25</sup> [emphasis in the original]

Elaborating this theory as Hobbes was writing his, Locke pitched a more friendly and flexible vision of the state of nature that was more agreeable to freedom, property, and the will of the majority by comparison to the immutable right to follow the will of one person.

Until the mid-nineteen century, when John Stuart Mill laid down a principle for limiting government activity contrary to citizen will, a host of other theories offered alternatives to what Dahl calls the “second democratic transformation,” the shift from the city-state to the nation-state. This second transformation would eventually lead to the acceptance of the concept of representative democracy (sometimes called ‘representative’ sometimes called ‘liberal’) as roughly the most desirable type of democracy into the twentieth century.<sup>26</sup>

Two major ways of approaching the dichotomy between governed and governments can be identified among the early philosophical writings that make the mold of representative democracy: either the governed are believed to be incapable of deciding or ruling their lives and therefore need good governments to do that work for them (a view sometimes called ‘guardianship’), or the government is seen as potentially infringing individual liberty and therefore needing to be in check all the time (a view largely called liberalism).<sup>27</sup> Between these two poles, a host of variations have tried to solve the tension

between individual liberty and rights, and their attainment through an institutional body called state or government.

Rousseau's *Social Contract* tried to resolve the dilemma of the government versus the people by completely dropping the government out of the equation and empowering the citizens to be their own masters. That end could be achieved, Rousseau (1712-1778) thought, in a unification of the wills of all conducive to the General Will.

*Each of us places in common his person and all his power under the supreme direction of the general will; and as one body we all receive each member as an indivisible part of the whole ... this act of association produces a moral and collective body, composed of as many members as there are votes in the assembly, which from this act receives its unity, its common self, its life, its will. This public person, which is thus formed by the union of all other persons, took formerly the name of "city," and now takes that of "republic" or "body politic." It is called by its members "State" when it is passive, "Sovereign" when in activity, and whenever it is compared with other bodies of a similar kind, it is denominated "power."*<sup>28</sup>

In this arrangement, everybody is free from the constraints of government, but not from the constraints of following the general will, a view to be fiercely fought by American liberals later on.

In order, therefore to prevent the social compact from becoming an empty formula, it tacitly comprehends the engagement, which alone can give effect to the others - that whoever refuses to obey the general will shall be compelled to it by the whole body: this in fact only forces him to be free; for this is the condition which, by giving each citizen to his country, guarantees his absolute personal independence, a condition which gives motion and effect to the political machine. This alone renders all civil engagements justifiable, and without it they would be absurd, tyrannical, and subject to the most enormous abuses.<sup>29</sup>

Late nineteen and twentieth century anarchists attempted to follow this trend of thought, arguing that states were coercive by nature, therefore they should be abolished and replaced with free associations of citizens.<sup>30</sup> Anarchism, however, never resolved basic issues of defection by a minority from the rule of a compliant and responsible

majority, nor did it get into the more mundane matters of feasibility, mechanics of association, and of responsibility.

Between Rousseau and the French Revolution, three historical developments helped shape the two main directions of the representative democracy continuum. The Leveller Movement and early American ideas of representative government contributed to the notion that representation within a democracy can and should be conceived as an institution in which governments are responsible and accountable to their constituencies, a view called the 'American model of democracy' in the twentieth century. In contrast, the rise of the Whig view of representation in England launched the concept that representatives were not and should not be bound by mandates from their constituents, but rather represent the larger national interest in the best way they saw fit. This became known as the 'European model of democracy.' We shall return to these models.

The Levellers marked a distinctive and fairly unique moment in British evolution to democracy through their ideas about Parliament's composition and its relationship to the people. The Tory traditional view, that the function of M.P.s was merely to represent local interests and seek redress for particular grievances while the King and his ministers were responsible for interpreting the national interest was challenged by the Levellers' demand for universal suffrage and equal representation of all. The Levellers felt that each man in England should have the right to send a representative to London to voice concerns about their lives, a daring notion for a Parliament traditionally made up of members of the wealthy middle class. Similarly, the Levellers thought that Parliament should be the agent of popular will rather than a mere tool for deciding when and by what

means the King's next campaign was going to be fought. These views turned into demands on the British Parliament and challenged traditional views of governance.<sup>31</sup>

By contrast, the English Whigs developed a view of representation that echoed Rousseau in some respects, and Hobbes in others, and which was as contested as the two philosophers. An early expression of that view was formulated by Algernon Sidney, and the epitome of it was given to us by Edmund Burke (1729-97). In essence, this view argues that Parliament represented the whole nation, rather than aggregate separate interests. In order for M.P.s to pursue the good of the nation, they needed to be free to do what they thought best in the national interest. In 1698, Sidney was writing that

It is not therefore for Kent or Sussex, Lewes or Maidstone, but for the whole nation, that the members chosen to serve in these places are sent to serve in Parliament. And though it be fit for them...to harken to the opinions of the electors for the information of their judgements...yet they are not strictly and properly obliged to give account of their actions to any...<sup>32</sup>

In mid-eighteenth century, we find Whig leaders postulating a fairly Hobbesian view that representatives should be under no obligation to take instructions from their constituents:

After we are chosen, and we have taken our seats in this House, we have no longer any dependence on our electors, at least in as far as regards our behavior here. Their whole power is then devolved upon us, and we are in every question that comes before this House, to regard only the public good in general, and to determine according to our own judgements.<sup>33</sup>

And in the later part of the eighteenth century, as the French Revolution was starting to loom on the horizon, we find Burke arguing that power "in the hands of the multitude ... admits of no control, no regulation, no steady direction whatsoever."<sup>34</sup>

Consequently, Burke argued that power should be naturally delegated to Parliament, the

only body capable of pursuing the “general reason of the whole,” that is the national interest:

Parliament is not a congress of ambassadors from different and hostile interests, which interests each must maintain, as an agent and advocate, against other agents and advocates; but Parliament is a deliberative assembly of one nation, with one interest, that of the whole - where not local prejudices ought to guide, but the general good, resulting from the general reason of the whole. You choose a member, indeed; but when you have chosen him he is not a member of Bristol, but he is a member of Parliament.<sup>35</sup>

Implicit in the Whig view are two important aspects of the government-constituency relationship. In the first place, there is an identifiable national interest worth pursuing, which takes precedence over all other personal, local or group interests. All the composing parts of the whole nation agree that this national interest (what Rousseau called the General Will) must be pursued, and they delegate the Parliament to carry out the job. Secondly, the Parliament representatives are under no obligation to consult with constituencies before making decisions in the national interest, since they are singularly fit to make those decisions (a view Hobbes would have gladly endorsed). Neither Rousseau nor Hobbes withstood the test of history; their theories, together with variations on their political themes like that of the seventeenth century Whig view of representation came heavily under attack by their contemporaries.

Early American views of government marry the concepts of representation and democracy in a formal type of government called representative democratic government for the first time in history. In 1802, Thomas Jefferson was declaring in a letter to Governor Hall that “We have the same object, the success of representative government. Nor are we acting for ourselves alone, but for the whole human race. The event of our



experiment is to show whether man can be trusted with self-government.”<sup>36</sup> In 1816, in a letter to I. H. Tiffany, he stated that

The full experiment of government democratical, but representative, was and still is reserved for us... The introduction of this new principle of representative democracy has rendered useless in almost everything written before on the structure of government; and in great measure relieves our regret if the political writings of Aristotle, or any other ancient, have been lost.<sup>37</sup>

Evidently, the new nation on the rise on the other side of the Atlantic was not interested to inherit the Whig philosophical approaches of the mother-country, nor was it prone to continue its dependence on the British island, especially after King George III tried to impose taxes on the colonists without their consent. One would have thought that the British had learned from the lessons of their own history not to try ‘taxation without representation’ again; just as the former attempt ended with the crisis between the Parliament and the Crown and led to the severance of a king’s head, the attempt on the American colony precipitated the latter’s severance from the mother-British island. The Declaration of Independence formalized the separation by appealing to general principles of governance, while the *Federalist Papers* formalized a view of representative government that is fairly close to what America eventually bred by the end of the twentieth century.

The concept of democracy that lies at the foundation of the American democracy allows for the first time in modern history for a system of checks and balances between governments and their constituencies. The Founding Fathers expected members of the legislature to act as delegates of their constituents and favored frequent elections to prevent representatives from acquiring too much independence. Writing of the House of Representatives in 1788, the Founding Fathers found it essential that a representative

should have “an immediate dependence on, and an intimate sympathy with, the people. Frequent elections are unquestionably the only policy by which this dependence and sympathy can be effectually secured.”<sup>38</sup> And Jefferson declared that members of the legislature should submit themselves to “approbation or rejection at short intervals,” to preempt abuses of power and the possibility of losing touch with the real holders of power, the people.<sup>39</sup> This was the first time when a philosophy of governance addressed directly and operationally the relationship between constituencies and their government representatives, with elections as the measurable dimension of how governments lived up to their constituencies’ expectations.

Somewhat paradoxically, the legacy of the French Revolution is an approach to governance that resembles more the Whig view of representation than the American one, despite the fact that the Revolution pitched popular government against absolute monarchical power.

It is the approach rather than the facts of the Revolution that is important to the topic of representation. Under the leadership of Abbé Sieyès, the revolutionaries adopted the view that the nobility and the clergy had no right to claim themselves as part of the nation since they possessed legal privileges and exemptions that relieved them from abiding by the laws of the land, therefore they made themselves foreigners in their own nation. They were equally not entitled to stand for election as representatives of the Third Estate, the estate that was made up of the largest number of people of the land. In order to secure that none of those elected to the Third Estate would yield to pressure from the nobility, Sieyès induced the Assembly to declare that deputies were not bound by the instructions of their constituents. This stipulation was included in the Declaration of the

Rights of Man and of the Citizen, in the summer of 1789. The Constitution of 1791 declared that sovereignty resided in the nation, that the National Assembly embodied the will of the nation, and mandated that “the representatives elected in the departments will not be representatives of a particular department but of the whole nation, and they may not be given any mandate.”<sup>40</sup> This view of representation led modern critics to argue that as soon as the French representatives were given the name of ‘deputies’ they ceased (in theory) to deputize for anyone.<sup>41</sup>

We can see from this abbreviated history of theoretical developments that the roots of the controversy between the European and the American models of representation go as far back as the seventeenth century. The view that a representative derives his legitimacy from the act of elections and that he is not bound to heed to the instructions of his constituents became the European approach to representative government. In contrast, the radical American view cherished the notion that representatives are the people’s agents. Constitutional provisions prohibiting mandates and instructions from constituents to representatives were included in the constitutions of Belgium (1831), Italy (1848), Prussia (1850), Sweden ( 1866), Austria (1867), Germany (1871), Switzerland (1874), the Netherlands (1887), Denmark (1915), and later in the 1948 Constitution of Italy and the 1949 Basic Law of the German Federal Republic.<sup>42</sup> The view that sovereignty rests with the people and that political representatives are the people’s agents remained the American approach.

## UTILITARIANISM AND REPRESENTATION

Despite the strong influence of the Whig view of representation on British and European political affairs, the British political system was challenged from within and led to the introduction of representative governments in Britain and France. Jeremy Bentham (1748-1832), James Mill (1773-1836), and their predecessors, Joseph Priestley (1733-1804), Richard Price (1723-1791) and Thomas Paine (1737-1809) challenged the British parliamentary system on the grounds of the franchise. Their influence can largely be seen in twentieth century continental parliamentary arrangements.

In the beginning of the eighteenth century, the British House of Commons did not reflect the social and demographic changes in an increasingly industrial England and a disproportionately large number of landowners represented an increasingly narrow range of constituents. The demographic growth accompanied by the booming of industrial areas created the unrealistic situation in which landowners served in a disproportionately large number in the House while the emerging industrial areas were under-represented.<sup>43</sup> For the Whigs, this situation did not represent a problem: they argued that, as long as some industrial cities had representatives in the House, virtually all industrial cities were represented. The words of a House member arguing this case are worth quoting: "It is not more expedient that a large town should be represented rather than a small town because its interests will be watched by its own delegates; but because it is more likely to send a good representative to the national councils."<sup>44</sup>

Two waves of radical reformers challenged this view of representation in England. One group based their demands for legitimate, equal representation on a belief in natural rights of men resembling American ideas. They were largely inconsequential in the history

of parliamentary change. The other group developed its own philosophy called utilitarianism, which achieved the change that the first group aspired to, but starting from radically different premises and assumptions about human nature. Utilitarianism defended a structure of representation and interest that translated into a political arrangement similar to the American one only based on a different philosophy.

Joseph Priestley and Richard Price were pioneer challengers. They developed political ideas based on the writings of Rousseau and forwarded the view that sovereignty rested with the people, therefore all people should be entitled to political representation. Thomas Paine added his efforts to theirs in his famous *The Rights of Man*. The revolutionary idea that a representative government should be based on a wide franchise and that the citizens had the right to revolt against forms of government that did not abide by that rule was once again reiterated.<sup>45</sup> Their arguments, however, were never really popular in England.

It was utilitarianism, a philosophy developed in England, that was to challenge the Whig foundation of government in a more convincing and radical manner than the natural rights philosophy, with the ironical results that utilitarians achieved the change that the natural rights radicals advocated. Jeremy Bentham and James Mill were the pioneers of this philosophy, with modernized versions of utilitarianism to be developed later into the twentieth century.

Jeremy Bentham, the father of utilitarianism, was the first to advocate a simple principle of utility according to which laws were good as long as they increased the sum total of the happiness of humankind, and bad if they decreased that happiness. Consequently, the best kind of parliamentary system was one in which legislators, in the

course of promoting their own interests and happiness, would automatically maximize the happiness of the whole population.

In order to achieve such a parliamentary body, manhood suffrage was necessary, to insure that the personal interests of the whole were represented in the legislature. Annual elections were necessary to make sure that M.P.s were in constant contact with their constituencies and represented their voices, and did not have the time to develop personal, exclusive interests of their own, a view Jefferson and the Founding Fathers found appealing irrespective of philosophical foundation. Any law supported by a majority of such a legislative body would be in the interest of the majority and therefore would increase the sum total of happiness in society.<sup>46</sup>

Bentham's good friend, James Mill, set out these principles in a more clear manner in his *Essay on Government*. Starting out from the basic assumption that men are motivated in their actions by self-interest, he argued that any legislative body should account for each individual interest in order to ensure that the sum total of interests was represented, therefore increasing the sum of total happiness in a society. "It is indisputable that the acts of men follow their will, that their will follows their desires, and that their desires are generated ... by their interests. [...Hence,] a legislative assembly must have an identity of interest with the community, otherwise it will make a mischievous use of its power."<sup>47</sup> In order to prevent representatives from abusing their power, a structure needed to be arranged so that "in his capacity of representative it would be impossible for him to do himself as much good by misgovernment as he would do himself harm in his capacity of member of the community."<sup>48</sup> That structure was identified as (frequent) elections, which would preempt abuse of power since "the smaller period of time during

which any man retains his capacity of representative, as compared with the time in which he is simply a member of the community, the more difficult it will be to compensate the sacrifice of the interest of the longer period by the profits of misgovernment during the shorter.”<sup>49</sup> This was the basic tenet of utilitarianism that changed the premises from which the British viewed their Parliament, and the basis to which later views of representation will return.

With the early utilitarians, then, we see the initial elements of modern representative democratic systems. Utilitarian advocacy for a blend of procedural and (almost) normative requirements for a reformed parliamentary system led to the institutionalization of elections and universal franchise a century and a half later. The discourse on the necessity of universal franchise, however, consumed much of the nineteenth century. It was led by advocates of utilitarian principles as well as advocates of natural rights for all, and eventually led to the introduction of universal franchise in the beginning of the twentieth century.

In the twentieth century, the century-long battle for universal suffrage rights seems to be one of the many historical accomplishments that tend to be taken for granted. It is instructive to pause and reflect on its beginnings for a moment. The fact that early utilitarians battled for procedural mechanisms such as frequent elections and universal franchise to ensure profits and benefits for all rather than equal rights for all is somewhat ironic, since their battle put the very issue of equal rights under discussion. As James Mill reassured his contemporaries that, if given the vote, the poor and the ignorant would go to the enlightened, “most virtuous” part of the community for advice, he also raised red flags regarding the general understanding of participation, responsibility, and governance.

...the opinions of that class of the people who are below the middle rank are formed, and their minds are directed by that intelligent, that virtuous rank who come the most immediately in contact with them, ...to whom they fly for advice and assistance ... to whom their children look up as models for their imitation ... There can be no doubt that the middle rank ... is that portion of the community of which, if the basis of representation were so far extended, the opinion would ultimately decide.<sup>50</sup>

It was Mill's own son, John Stuart Mill (1806-1873) who cast the debate over the role of the government and of equal rights for all in a light that took the role of a government towards its citizens to a new political dimension. Greatly influenced by the ideas that Alexis de Tocqueville brought from America on liberal franchise, Mill advocated the extension of the franchise on the grounds of its contribution to the vitality of the people. Mill believed that a political system which would engage citizens in political activity would yield a high degree of common good and therefore, is was highly desirable. A government, he said, was "an agency of national education", and should be judged by "its actions upon men ... by what it makes of the citizens, and what it does to them; its tendency to improve or deteriorate the people themselves."<sup>51</sup> This was hardly a utilitarian position which took the controversy over rights and privileges to a different, higher level of political discourse. In the twentieth century, these terms of discourse were dubbed "normative."

Universal suffrage was introduced in Britain only in 1918, after several Reform Acts that gradually extended the suffrage but fell short of including the working class. In France, the Revolution of 1848 brought about the change that the British were still slow in adopting. The French introduced manhood suffrage and direct national elections, and this system has not been challenged since. In the United States, property qualifications were maintained until the mid-1830s, and by the end of the Civil War they disappeared.



A challenge to the system of representation as defined so far came from Marxist theory. For Karl Marx and his followers, the “end” of humanity had a teleological character, with the proletariat winning over the capitalist forces of the bourgeoisie and effecting the necessary transformation of the economic basis of society. In a capitalist society, the function of the government was to preserve the capitalist system rather than to disperse resources equitably. Representation was, therefore, understood to be a procedural tool in the hands of the working class who would bring about a revolution that would set everybody free. For Marxists, representative democracy was a sham defined and designed to further enslave masses in the name of some liberal ideal.

Even if at the end of the twentieth century there are few political arrangements in the world that openly support an orthodox Marxist view, the reality is that at its time, Marxism was a very powerful ideological tool which developed momentum in the hands of a few Russian and East European leaders. History proved that Marxism is not a functional political arrangement. However, its appeal was enormous, and its consequences will be with Eastern Europe and the former Soviet Union for a long time.

Puzzling as this may sound on the eve of a new millennium, several early thinkers of representative government treated representation in reductionist terms comparable to the Hobbesian view. The concept that a representative is someone merely entrusted to act, with no further stipulations of responsibilities or duties towards those who entrusted him with that authority, was shared as late in the conceptual journey as the mid-twentieth century. Representation was said to occur whenever “one person is authorized to act in place of others ... with binding authority in the name of others;”<sup>52</sup> “...representatives- whatever the manner of their investiture- are authorized in advance to act conjointly in

behalf of their constituents and bind them by their collective decisions;”<sup>53</sup> and representative government can be defined as “a form of government whereby the governed can be said to be responsible for their governors’ actions.”<sup>54</sup> These views were, however, quietly abandoned by a majority of political thinkers.

By 1920, America built an image of its political system as normatively “superior” to European arrangements. The main elements of that image were the responsible voter, the accountable representative, and the constant flow of constructive communication between government and the public. That vision was eventually challenged not by an European, but by an American. Walter Lippmann’s *Public Opinion* (1922), and his later *The Phantom Public* called into question assumptions about the citizen’s knowledge of, interest, and participation in the political process. It also called into question the feasibility of having informed citizens and therefore responsible participants in the political process in a world of mediated information.

The world that we have to deal with politically is out of reach, out of sight, out of mind. It has to be explored, reported, and imagined. Man is no Aristotelian god contemplating all existence at one glance. He is the creature of an evolution who can just about span a sufficient portion of reality to manage his survival, and snatch what on the scale of time are but a few moments of insight and happiness...[R]epresentative government, either in what is ordinarily called politics, or in industry, cannot be worked successfully, no matter what the basis of election, unless there is an independent, expert organization for making unseen facts intelligible to those who have to make the decisions... [P]ublic opinions must be organized for the press if they are to be sound, not by the press as is the case today.”<sup>55</sup>

The private citizen today has come to feel rather like a deaf spectator in the back row, who ought to keep his mind on the mystery off there, but cannot quite manage to keep awake...public affairs are in no convincing way his affairs. They are for the most part invisible. They are managed, if they are managed at all, at distant centers, from behind the scenes, by unnamed powers... In the cold light of experience he knows that his sovereignty is a fiction. He reigns in theory, but in fact he does not govern... The actual governing is made up of a multitude of

arrangements on specific questions by particular individuals. Government, in the long intervals between elections, is carried out by politicians, officeholders and influential men who make settlements with other politicians, officeholders and influential men.<sup>56</sup>

Lippmann-like calls to an awareness of the difference between the real life ‘democratic process’ and the theory of democracy gave rise to intensive studies of public opinion and its relationship to government action. Those studies did not salvage the democratic vision either. At their best, they uncovered the immense conceptual and methodological problems of studying public opinion formation, development, or relevance to politics. At their worst, they further weakened the vision of people mandating representatives to serve their interests in the government. It will be the task of the following chapter to look more closely into these difficulties.

### REPRESENTATIVE DEMOCRACY’S JOURNEY: PRELIMINARY OBSERVATIONS

This brief historical account of the evolution of democratic ideas and of representation allows for a number of preliminary observations regarding key elements of governance. The debate over the relationship between governments and their constituencies, and further down the road over political representation, is evidently one of the oldest in political thinking. From ancient to medieval times, theoretical distinctions were made between the “divine right” of kings to rule over their subjects versus the “delegated right” to rule.

Quality and fairness of political decisions, and equal chances of popular participation in the process of government, were desiderata before the beginning of the millennium. The prolonged period of unaccountable governments during the Middle Ages

led to a rise in popular consciousness about rights to have a voice heard in the process of government. In the eighteenth century, the debate of “natural law” versus “the state of nature” consumed much of the political discourse, with the result that many political arrangements were conceived in the name of the general good, but with little leadership accountability to the people. In the nineteenth century, theorists struggled with the “procedural” versus “substantive” conceptualizations of democratic government, and in the early twentieth century, “American” versus “European” models of democracy were further differentiated. Most recently, the debate pitches the concepts of “representative government” and “representative democracy” against each other, with arguments about their distinctiveness and applicability.<sup>57</sup>

Historical debates take a lengthy, sometimes encyclopedic approach to the development of the concept of representation since its inception. Conceptual arguments use tools and sources from a variety of disciplines to come up with the right and incontrovertible definition. Methodological approaches attempt to measure the empirical validity and applicability of existent theories. The nature of the controversies varies but a common thread runs through them all: defining democracy’s core issue of political representation in a way that is accepted by the widest majority.

Rather than make conceptual arguments about “true” meanings, this study takes the view that representative democracy has traveled a long enough journey to be considered a valid and attractive system of government. Because of its attractive features, representative democracy has become a model (not to be understood in a positivist sense) of governance to follow, and is a system towards which emerging polities aspire. As such,

defining characteristics of representative democracy should be part of analyses of emerging democracies.

Current studies of the direction and progress towards democracy in Eastern Europe address typical representative democracy elements of fairness of elections, civil freedoms, and popular participation in the process of government. Elements of government responsiveness to public views, however, have not been addressed systematically. It will be the task of the next chapters to design an approach to government responsiveness that sheds light on progress towards accountability and responsiveness in the region.

## NOTES TO CHAPTER II

1. Dahl, *Democracy*, p. 13. Recent archeological evidence traces the first elements of democratic governance to well before the Athenian democracy, to the Spartans and Phoenicians. However, the scope of this study does not necessitate an in-depth presentation of these first symbols of democracy. For those interested, see Simon Hornblower, "Creation and Development of Democratic Institutions in Ancient Greece," in John Dunn, ed., *Democracy, The Unfinished Journey: 508BC to AD 1993* (Oxford: Oxford University Press, 1992), pp. 1-16.
2. Jones argues that "in the abundant literature produced in the greatest democracy in Greece there survives no statement of democratic political theory." See A.H.M. Jones, *Athenian Democracy* (Oxford: Basil Blackwell, 1969), p. 41. However, the problem with ancient democratic theory seems to be less the existence of statements *per se* as it is the internal consistency of the theories which survived. Aristotle, for example, differentiates between democracies and oligarchies as between the state in which "the free are sovereign" versus the state in which "the rich are sovereign." See Aristotle, *The Politics*, trans., T.A. Sinclair (Harmondsworth, Middlesex: Penguin Books, 1981), p. 245. Yet in further defining how free men exercise their right to rule in a sovereign way, he assigns that right only to full-fledged citizens (a discussion is offered further on) who are not in fact the totality of the free men in the state: "...we must not give the name of citizen to all the persons whose presence is necessary for the existence of the state..., the best state will not make a mechanic a citizen...; what we have called the virtue of a citizen cannot be ascribed to everyone, nor yet to free men alone, but simply to those who are in fact relieved of necessary tasks." *Ibid.*, p. 184. It follows that Aristotle's democracy is the type of government in which citizens—who could have been a majority, but not an inclusive one—have the right to rule in a sovereign way, rather than all the free men in a state. This inference comes into contradiction with his overall theory of democratic governance, which is perhaps the most complete of the existing ancient theories in terms of descriptions of the methodology and practice of democracy.
3. Thucydides, *History of the Peloponnesian War*, trans., Rex Warner, with an introduction and notes by M.I. Finley (Harmondsworth, Middlesex: Penguin Books, 1985), p. 73; also Aristotle, pp. 205, 363.
4. In Pericles' funeral oration, the engagement of the Athenians in the affairs of the state is spelled out quite unequivocally: "Here [in Athens] each individual is interested not only in his own affairs but in the affairs of the state as well: even those who are most occupied with their own business are extremely well-informed on general politics—this is a peculiarity of ours; we do not say that a man who takes no interest in politics is a man who minds his own business; we say that he has no business here at all." Thucydides, p. 147.

5. Aristotle, pp. 195, 207-209, 298.
6. Aristotle defines citizenship extensively yet inconclusively. Sometimes citizens are distinguished from non-citizens by birth right (having both an Athenian father and mother), other times by their virtue and sound judgement ("the citizen proper, without any defects needing to be amended, the wise and virtuous"; "the experts," not the "inferior persons [who should not] have sovereign control over more important matters than the respectable sort"), and sometimes by the capacity to hold office ("...a citizen in the fullest sense is one who has a share in the honours ['status,' 'respect,' 'privilege' gained from holding office].") Leaving aside the elitist aspects of these various definitions, for Aristotle not all people who are free men are citizens in the fullest sense (i.e., allowed to hold office and make decisions). Aristotle, pp. 169, 171-172, 184-185, 205.
7. Aristotle, p. 363.
8. John V. A. Fine, *The Ancient Greeks: A Critical History* (Cambridge, Mass.: Harvard University Press, 1983), pp. 51, 75, 240, 408; also M. I. Finley, *Politics in the Ancient World* (Cambridge, UK: Cambridge University Press, 1983), p. 73.
9. The Middle Ages were ideologically dominated by the rise of Christianity, with its accent on shifting the place of secular authority to spiritual authority, an order characterized by Bull as the "international Christian society." Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (New York: Columbia University Press, 1977), pp. 27-33.
10. Quentin Skinner, *The Foundations of Modern Political Thought*, 2 vols. (Cambridge, UK: Cambridge University Press, 1978), p. 352.
11. David Wotton, "The Levellers," in John Dunn, ed., *Democracy, the Unfinished Journey: 508BC to AD 1993* (Oxford: Oxford University Press, 1992), p. 71.
12. "... that the poorest he that is in England has a life to live as the greatest he; and that ... every man that is to live under a government ought first by his own consent to put himself under that government; and I do think that the poorest man in England is not at all bound in a strict sense to that government that he has not had a voice to put himself under." From the speech of a Leveller supporter, quoted in David Wotton, ed., *Divine Right and Democracy* (Harmondsworth, Middlesex.: Penguin Books, 1986), p. 286.
13. Dunn's collection of essays makes this case. See John Dunn, ed., *Democracy, the Unfinished Journey: 508BC to AD 1993* (Oxford: Oxford University Press, 1992).
14. Wotton advocates this view. See Wotton, "Levellers," p. 73.
15. Norman F. Cantor, *The Civilization of the Middle Ages: A Completely Revised and Expanded Edition of Medieval History, the Life and Death of a Civilization* (New

- York: Harper Perennial, 1993), pp. 13-14, 306, 429, 480. Also, Robert S. Hoyt and Stanley Chodorow, *Europe in the Middle Ages*, 3<sup>rd</sup> edition (New York: Harcourt Brace Jovanovich, 1976), pp. 514-525.
16. James Harrington, *The Political Works of James Harrington*, edited with an introduction by J. G. A. Pocock (Cambridge, New York: Cambridge University Press, 1977).
  17. England was most advanced in this development during the Middle Ages and France followed its example. See May McKisack, *The Parliamentary Representation of the English Boroughs During the Middle Ages*, reprint, 1st ed. 1932 (New York: Barnes and Noble, 1962).
  18. Held, especially Part II, "The Emergence of Sovereignty and the Modern State," pp. 29-38.
  19. Hanna Pitkin credits Hobbes with being one of the first, if not the first, representation thinker of all times. See Pitkin, particularly chapter 2.
  20. Thomas Hobbes, "Of the Natural Condition of Mankind as Concerning their Felicity and Misery," Chapter 13 of *The Leviathan*, in John Somerville and Ronald E. Santoni, eds., *Social and Political Philosophy. Readings from Plato to Gandhi* (Garden City, N.Y.: Anchor Books, 1963), pp. 141-143.
  21. Hobbes, in Somerville and Santoni, p. 151.
  22. Alfred De Grazia, *Public and Republic* (New York: Alfred A. Knopf, 1951), p. 9.
  23. Morton Kaplan, "How Sovereign Is Hobbes' Sovereign?" *Western Political Quarterly*, Vol. 9 (June 1956), p. 400.
  24. Hobbes, in Somerville and Santoni, pp. 153-155.
  25. John Locke, *Two Treatises of Government*, ed. Peter Laslett (Cambridge, UK: Cambridge University Press, 1988), pp. 331-332.
  26. Dahl, *Democracy*, pp. 213-224.
  27. *Ibid.*, pp. 52-64.
  28. Jean Jacques Rousseau, *The Social Contract*, in John Somerville and Ronald E. Santoni, eds., *Social and Political Philosophy. Readings from Plato to Gandhi* (Garden City, N.Y.: Anchor Books, 1963), pp. 214-215.
  29. *Ibid.*, p. 217.



30. For a fairly complete and thorough presentation and critique of anarchism as philosophical trend, see J. R. Pennock and J. W. Chapman, *Anarchism* (New York: New York University Press, 1978).
31. Wotton, "Levellers."
32. Algernon Sidney, *Discourses Concerning Government* (New York: Arno Press, 1979), p. 451.
33. Whig leader John Willis in a House iteration. See Parliament of Great Britain, *The Parliamentary Debates* (New York: Kraus Reprint, 1970), Vol. 9, Col. 435.
34. Ross J. S. Hoffman and Paul Levack, eds., "Appeal," *Burke's Politics* (New York: Alfred A. Knopf, 1949), p. 393.
35. Edmund Burke, *Works*, Vol. 1 (London: Bohn's Standard Library, 1887), p. 447.
36. Thomas Jefferson, *Democracy*, selected and arranged with an introduction by Saul K. Padover (New York, London: D. Appleton-Century Comp. Inc., 1939), p. 27.
37. *Ibid.*, p. 22.
38. Alexander Hamilton, John Jay, and James Madison, *The Federalist*, new edition (first published 1787-1788) (London: Everyman's Library, 1918), p. 52.
39. Letter to S. Kercheval, quoted in Jefferson, p. 35.
40. *Ibid.*, p. 15.
41. Giovanni Sartori, "Representational Systems," in *International Encyclopaedia of the Social Sciences* (New York: Macmillan and Free Press, 1968), p. 466.
42. Anthony Harold Birch, *Representation* (New York: Praeger, 1971), p. 48.
43. Gordon A. Craig, *Europe Since 1815* (New York: Holt, Rinehart and Winston, 1961), pp. 97-100.
44. Sir George Cornewall Lewis, *Remarks on the Use and Abuse of Some Political Terms*, first published 1832 (Oxford, UK: Clarendon Press, 1898), p. 105.
45. Joseph Priestley, *Essays on the First Principles of Government* (London: J. Johnson, 1768); Richard Price, *Observations on the Nature of Civil Liberty* (London: T. Cadell, 1776).
46. Jeremy Bentham, *Collected Works*, ed. John Bowring (Edinburgh: William Tait, 1843).

47. James Mill, *Essay on Government* (New York: Bobbs Merrill, 1955, reprinted; first published 1828), pp. 67-84.
48. Ibid., p. 69.
49. Ibid., p. 70.
50. Ibid., p. 90.
51. John Stuart Mill, *Considerations on Representative Government*, ed. R. B. McCallum (Oxford: Basil Blackwell, 1946; first published 1861), pp. 129-130.
52. Avery Leiserson, "Problems of Representation in the Government of Private Groups," *Journal of Politics*, Vol. 11 (August 1949), p. 566.
53. Karl Loewenstein, *Political Power and the Governmental Process* (Chicago: University of Chicago Press, 1957), p. 38.
54. John P. Plamenatz, *Consent, Freedom and Political Obligation* (London: Oxford, U.P., 1968), pp. 16-17.
55. Walter Lippmann, *Public Opinion* (New York: Free Press, 1922), pp. 18-19.
56. Walter Lippmann, *The Phantom Public* (New Brunswick and London: Transaction Publishers, 1993; first published in 1927 by Macmillan), pp. 3-4, 31.
57. Bernard Manin, *The Principles of Representative Government* (Cambridge, UK: Cambridge University Press, 1997).

## CHAPTER III

### REPRESENTATIVE DEMOCRACY: MEASUREMENT ISSUES IN TRADITIONAL DEMOCRACIES AND IN EASTERN EUROPE

Before we design the terms of a government responsiveness analysis for Eastern Europe, we need to highlight methodological aspects of measuring representation in traditional democracies, in order to decide what type of methodological approach would be appropriate for the region.

In the study of traditional democracies, who is the 'public' with 'opinions' that the government must 'take into account'? How does the 'public' express 'opinions' in a manner that allows the government to incorporate such opinions into 'policy'? And what institutions or tools are available with which to measure the intensity or value of the relationship between public opinion and government policy?

#### OPINIONS, PUBLICS AND POLICIES: THE CONCEPTUAL DILEMMA

There is conceptual uncertainty and usage inconsistency regarding 'public' and the 'opinion' held by such a collection, and the 'policy' that it influences. Until the mid-fifties, it was popular to talk about the 'public' as a collection of people who shared a common interest and interacted based on that common interest.<sup>1</sup> While frequently used, such definitions told researchers little about common interest formation, the dynamics of interest change, the mechanics of interaction, or the relation of the public to political decisions. Differentiations were made between 'special publics' and 'general publics',<sup>2</sup> and between 'mass public' and the 'attentive public'.<sup>3</sup> The concept of opinion underwent similar tribulations, especially when it was tied to the concept of 'public'.<sup>4</sup> With the

advent of technology and the dissemination of information through television, research of opinion formation relative to mass media flourished,<sup>5</sup> with the resulting general impression that the media had become a tool of disinformation and propaganda.<sup>6</sup>

An equally ambivalent conceptualization and usage of the relationship between ‘policy’ and ‘opinion’ prevailed, with a tendency to analyze policy change primarily as legislative action.<sup>7</sup> Other indicators of policy were government intention and purpose, actual behavior of public representatives, and policy outcomes.<sup>8</sup> Policy-making was occasionally seen as the product of psychological factors, such as politicians’ perceptions about constituency preferences;<sup>9</sup> while studies in Europe found that M.P.s were critical and skeptical of voter interest or knowledge of political issues, which diminished their willingness to heed to publicly expressed preferences for policies.<sup>10</sup>

These differentiations were useful exercises at their time, but they were of limited help in finding out more about who the public was, which opinions were relevant, how opinions were formed and which opinions mattered politically. As Bernard Berelson ironically summarized the situation, “some kinds of communication on some kinds of issues, brought to the attention of some kinds of people under some kinds of conditions, have some kinds of effects.”<sup>11</sup>

### THE CONGRUENCE MODEL

In the mid-sixties, a pair of American political scientists made an important breakthrough in the methodology employed to study the opinion/policy relationship. The Miller-Stokes “congruence diamond,” as it later came to be known, analyzed the relationship between constituency preferences and the final roll-call vote of their

representatives on given issues using the correlation coefficient. This model gave a new impetus to the study of the opinion-policy relationship and became the focus of much scholarly dispute.<sup>12</sup>

The basic model of the Miller/Stokes “diamond” focuses on the degree to which constituents’ views are represented in the legislature by their elected Congressmen. The model explains the dependent variable, the Congressmen’s legislative vote via three independent variables, “district sentiment” on a selected policy issue, the “politicians’ opinions” on the issue, and the “politicians’ perceptions of district sentiment” on the issue at a given point in time. Between and among these variables, sets of relationships were hypothesized and path-correlation coefficients were calculated. These four distinct variables were related to one another according to Figure 1 on the next page.

Miller and Stokes found that the relationship between popular preferences on three selected policies (social welfare, civil rights, and foreign policy) and the manner in which elected representatives gave their vote in the House of Representatives on those policies (the AD axis) was strong in the case of elected representatives from the state of Michigan. They concluded that causal links existed between constituents’ preferences for the selected policies and the manner in which elected representatives represented those opinions in the United States Congress.

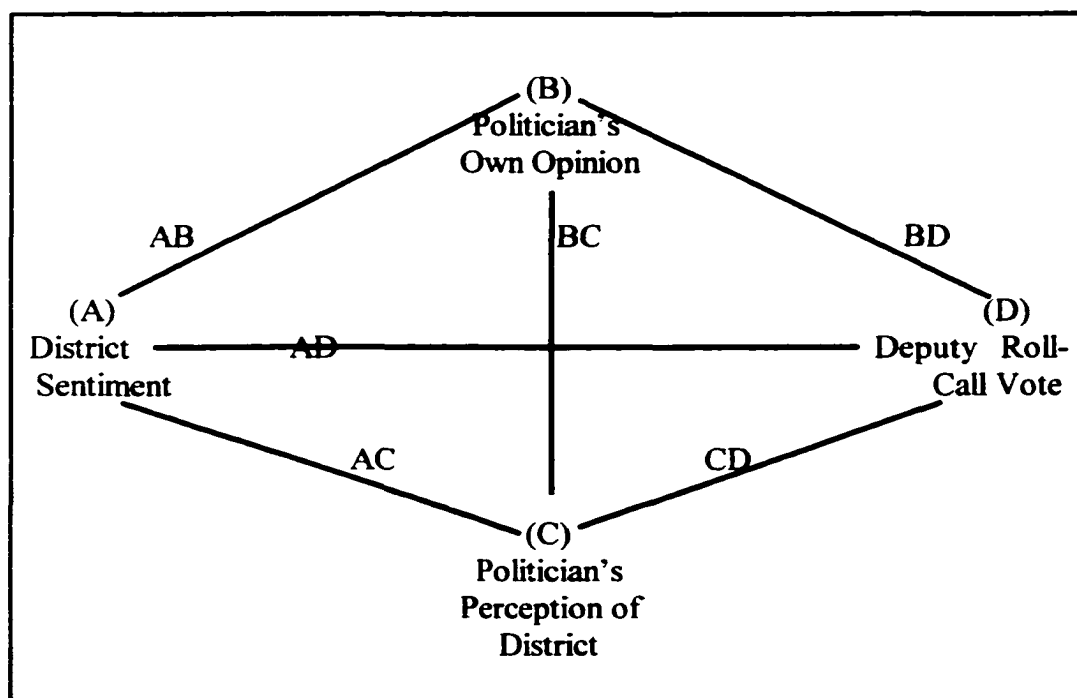


Figure 1. The Miller -Stokes "Diamond"

Based on Warren E. Miller and Donald E. Stokes, "Constituency Influence in Congress," *American Political Science Review*, Vol. 57 (1963), p. 50.

Critiques of the congruence model followed, with initial emphasis on the conceptual difficulties posed by indicators of public opinion and policy. Robert Weissberg cautioned that too much emphasis on causality based on a model that used at best relative measures of public opinion preferences and approximations of government policy outcomes was a dangerous road to travel. He argued that the many complications posed by concepts and the indicators selected to measure them should be a stimulus to maintain a degree of modesty about causality in analysis of policy-opinion congruence. He argued that an analysis of trends or direction of opinion and policy observed over a period of time was a much healthier and realistic analytical approach.<sup>13</sup>

One of Weissberg's contributions to the question of congruence was his description of the 'time lag' between publicly expressed preferences and the leaders' reaction in the form of policy. He argued that congruence should not be regarded as a static phenomenon, measured at one time. In his view, publics express preferences for policies during polls, elections, or referenda, at a given point in time (T1). Thereafter, the representatives need time to analyze preferences and decide what they are (or are not) going to do about them, say at T2. Finally, between raising the issue in the legislative assembly at T3, debating substance and consequences of policies at T4, and rallying enough votes to pass policies that voters prefer at T5, time elapses and congruence (or not) with the voters expressed preferences may be observed only at T6. Merely knowing public preferences and policy at T1 is not enough for a serious analysis of how congruence occurs.<sup>14</sup>

Further questions about methodology and the use of the correlation coefficient in the congruence diamond were raised. Cristopher Achen argued that the correlation coefficient was virtually uninterpretable within the framework of democratic theory and that its use could generate misleading conclusions. He argued that if the model of analysis did not incorporate a measure of the diversity of the sampled constituencies, the results did not mean anything valuable for the study of representation. He demonstrated that when constituencies are diverse, large correlations resulted. These large correlations were interpreted to indicate strong relationships between voter preferences and representative action. These large correlations resulted even when voters were not necessarily sensitive to a particular issue advocated by the representative, but merely reflected the wide diversity of preferences among the selected group.

Conversely, when constituencies were relatively homogenous, correlations could be small even when representatives favored and voted for issues of interest to their constituents. Consequently, he recommended that the use of the correlation coefficient be abandoned in studies of representation.<sup>15</sup>

Converse and Pierce welcomed the diamond model and developed it further, sensitive to previous critiques. The major contribution of the French analysts was to design a model of representation analysis that incorporated the measurement of variance between and within district constituencies on given issues. Their acknowledgment that “constituency will and constituency interest can sometimes be discrepant [which] presents a complication” to any methodological model led them to the use of a new statistical measure to solve the between-within variance: the “eta” statistic.<sup>16</sup>

The methodological fix that Converse and Pierce elaborated had a strong theoretical underpinning. For the “who is to be represented?” question, they advocated the use of the “Anglo-Saxon” system of representation, which equated popular representation with geographic districts, in opposition to advocates of “issue representation” who preferred a representation system designed around interest constituencies. They argued that territorial constituencies eliminate the problem of constituency identification, and made “issue identification” (the “what is to be represented” question) more prone to analysis.

They found that even in districts where there was a large degree of constituency homogeneity on policy questions that directly affected the district (for example, farming legislation in an agricultural district), homogeneity dissipated in regards of remaining areas of policy dispute, which typically were more numerous than the dominant interest-driven



policy issue. While one district could display a significant level of homogeneity on one or two issues of direct interest to the constituency--in which case the message to the representative is loud and clear--the district could display significant disagreement on issues of more general or more polarized concerns, such as women's rights, abortion rights, unemployment, etc.<sup>17</sup> Their model allowed for randomly distributed political differences across the electorate, the so-called within-and-between district variance.

At the policy-making end, their model also accounted for the apparent "paradox" of representation, where constituency interest and representative action may range from non-existent to perfect. They argued that between the two poles of the congruence model there were dynamic intervening processes, the "black box" of intervening variables that may turn the link into a very weak or very strong one. However, even in the absence of an apparent link representation may occur. This paradoxical situation had to do with the fact that people selected to run for office were designated by their parties on account of the views they held. Those views did conform with some constituency views, even if not necessarily their own district constituency. The so-called "representative *malgré lui*" is in effect representing constituency views, and the between-district variance was going to account for that type of representation.

In a detailed critique of the Converse-Pierce model and theoretical assumptions, Heinz Eulau further suggested that a new congruence model should be applied to the study representative democracy. He argued that designs of congruence models based on the theoretical assumption that constituencies send signals to their representatives all the time, on all issues were far-fetched and unrealistic. One of the theoretical foundations of representative democracy is, as we have seen in the previous chapter, to make democratic

governance possible in large-scale polities, where ordinary citizens cannot participate directly due to time and size constraints; hence, the need to entrust representatives with the job of everyday policy-making. “All one can require of a representative democracy is that elites do respond on those (few) occasions when the citizenry or parts of it are in fact aroused by the prior unresponsiveness of the elites.”<sup>18</sup>

To this day, disagreement over the appropriate concepts, indicators, and measures to look at the relationship between constituencies and their elected representatives persists. The diamond model continues to be used by some analysts, with refinements to allow for constituency heterogeneity, time lags, and two-way shifts in opinion and policy. There is, however, little indication that any one model is close to being accepted by a majority of analysts. Critiques, however, shed light on the dynamic character of the process of representation and enhance an understanding of just how difficult it is to capture the essence of what is happening between publicly expressed support for policies and the actual policy-making through elected representatives.

The analyses of congruence reviewed above yield three main ways of looking at the relationship between opinion and policy. These three ways were conceptualized as “models of representation” as follows:

- 1) A run-from-below representation model argues that there is a definite relationship between public preferences and policy actions taken by the government. This view conforms to definitions of political representation which emphasize governmental responsiveness.<sup>19</sup> A radical run-from-below model holds that elected representatives are responsive to voters' demands and that citizens' groups are a source of policy initiative. In the United States, several empirical

studies have found support for the proposition that public opinion works as an exogenous force on policy-making.<sup>20</sup> This suggests that, for the American democracy, a run-from-below matrix of analysis is an appropriate analytical tool to study representation.

2) A Responsive Party Model holds that there is a clear relationship between what politicians say they will do and what policies actually result. Political parties "are the major actors in the system that connects citizenry and the governmental process...they are the major actors in representative democratic systems."<sup>21</sup> This model of representation of public opinion preferences is upheld primarily by West European democracies, based on their strong party representativeness tradition. In a study based on data from ten Western countries over 40 years, it was found that parties compete for voter support on the basis of programs they present to the electorate during the campaign. The winner (one party or a coalition) takes the majority of seats in parliament and forms a government. During the government's term in office, the program presented to the voters is carried out. At the following election, voters get to hold the governing coalition accountable for what has been accomplished and what has not.<sup>22</sup> This finding suggests that for the West European democracies, a responsive party matrix is a more appropriate analytical tool in an analysis of representation than the run-from-below matrix.

3) The Elitist run-from-above model of representation holds that public opinion is constantly manipulated by elite groups.<sup>23</sup> A less radical elitist model argues that voters can hold the government accountable only after the fact; the government cannot and does not have any meaningful mandate from the voters.<sup>24</sup> A third

run-from-above model stresses that interests rule over elected politics. Votes count, but it is resources that will eventually decide.<sup>25</sup> A fourth elitist model argues that elites set the policy framework to which citizens react.<sup>26</sup>

The three types of models are graphically captured below. Figure 2 describes the responsive government matrix, with policy following roughly the same direction as opinion.

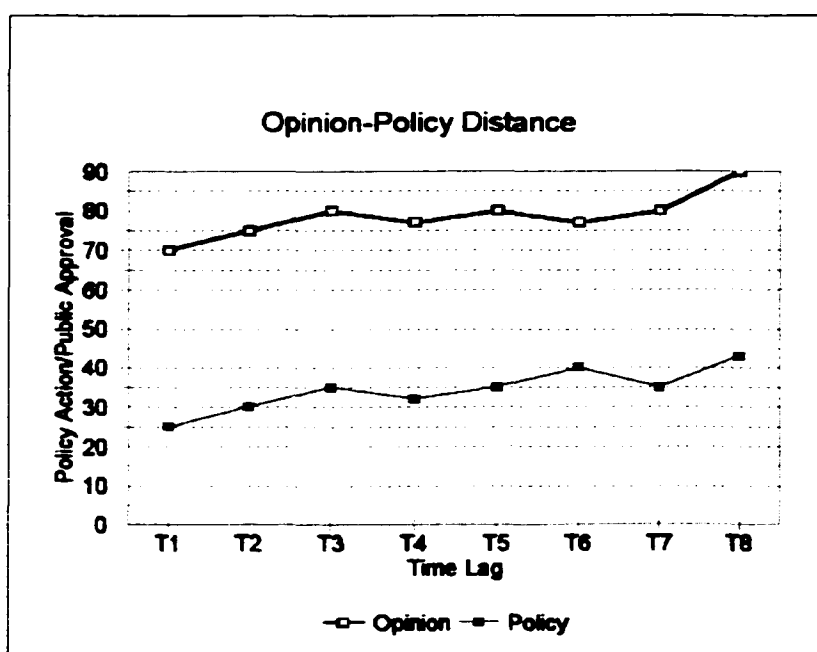


Figure 2. The Responsive Government Matrix

Figure 3 describes the responsive party matrix, with policy-makers setting the tone and public opinion following. Policy here can be made by individuals, parties, or larger bodies such as legislatures or executive branches, depending on the selected variables.

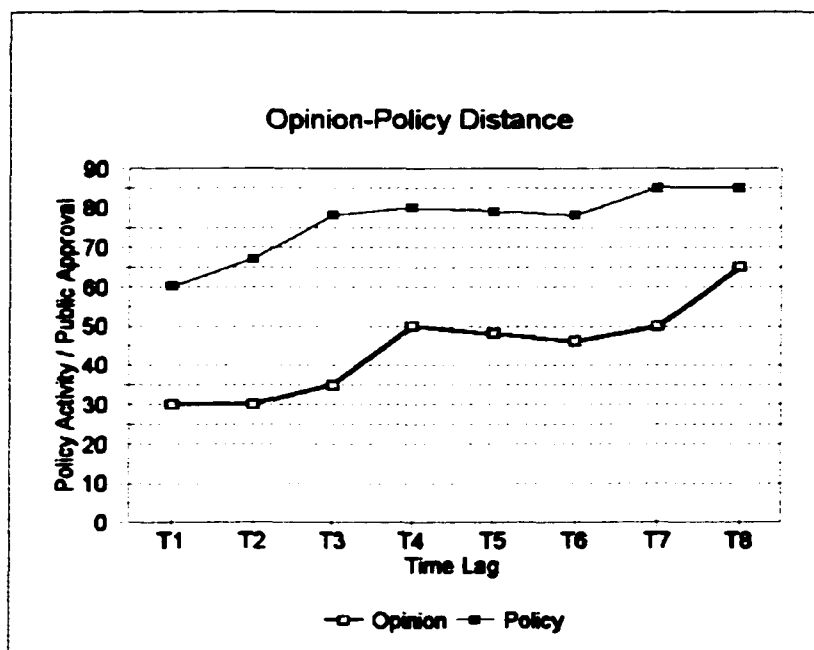


Figure 3. The Responsive Party Matrix

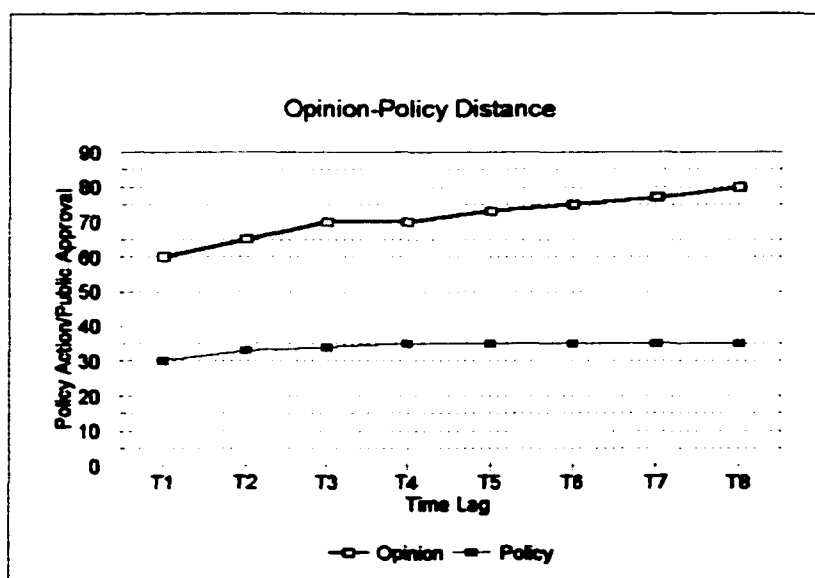


Figure 4. The Burkean Matrix

Finally, Figure 4 describes the Burkean, elitist model of decision-making, with politicians pursuing policies according to their own vision, without taking into account public opinion.

### EASTERN EUROPE: TERMS OF ANALYSIS

Responsiveness analyses of Western governments tend to focus on what specific cases fall under which causality models, as the previous discussion highlighted. The analysis of East European governments' responsiveness to their constituencies ideally would do the same.

However, Eastern Europe is neither ripe, nor consolidated politically and economically enough to permit an analysis of representation as sophisticated as Western statistical models. As noted on numerous occasions, the unqualified application of analytical tools to the study of the region may lead to distorted conclusions about the nature and direction of democratization, with serious domestic and international policy implications. This study takes the view that representation in Eastern Europe needs to be addressed in terms of direction at this stage of development of the region.

Did East European publics support the creation of a market economy after the collapse of the communist regimes? Did East European governments pursue economic policies designed to bring about the popularly endorsed system? Was the outcome of policies conducive to a system that continued to enjoy popular support? Given the dynamics of popular support for a market economy, how can government action be interpreted from the standpoint of representation?

In order to observe whether East European societies are moving in the direction of a representative democracy, with responsive and accountable leaders, we need to observe public opinion trends on given policies and trends of policy outcomes. Government responsiveness can be inferred if policy and opinion tend to move in the same direction, over a period of time. If some or all the countries in Eastern Europe are in the process of building representative democracies, we would observe a tendency like the one described in Figure 2. If governments, or strong leaders, or strong parties define the direction of policy and publics follow, then we would observe a trend falling roughly under the model in Figure 3. Finally, if remnants of the past are still strong, and governments continue to set the tone of policy with disregard for public opinion trends, the observed tendencies would look like the model described in Figure 4.

The interpretation of political developments and trends in Eastern Europe based on any of the models presented above needs to be extremely cautious, on account of basic assumptions about political maturity and data reliability. As early as 1993, Jane Curry remarked that Western notions of democracy, controversial though they may be, do not overlap with East European views of the term.<sup>27</sup> In 1995, Grzegorz Ekiert called for the identification of new theoretical and analytical tools for the study of the region, on account of its complex and unprecedented circumstances of transition. And in 1998, Rose and Haerpfer cautioned again against the use of “destination models” that analyze the region based on idealized goals of democracy. It was argued that the region is developing “incomplete” democracies, and that the critical element of any analysis of transition should be the direction in which these democracies are moving, rather than whether they fit Western models.<sup>28</sup>

The above reservations were not made by picky Western analysts. Observed developments point towards conflicting tendencies. On the one hand, the countries in the region have attained a degree of maturity in their long-term vision for development consisting of integration within structures of Western democracies. On the other hand, the experience of the past decade indicates that there is confusion about the means and mechanics of reaching a stage of development compatible with European Union or (for those countries who were not included in the first round) with NATO membership.

The same duality exists regarding reliability of public opinion data. While many polls have been commissioned in the region on a variety of topics ranging from democratization to human rights, it is not always clear what the polls are gauging. A question on approval of the state of democratization of one's country may be thought to gauge public sentiment towards the democratization process. In reality, depending on respondents' views of what democratization means, it could gauge economic performance, freedom, or satisfaction with politics. Studies point out that questions regarding economic performance sometimes gauge job insecurity,<sup>29</sup> and sometimes satisfaction with the overall situation in the country.<sup>30</sup>

It appears that none of the populations under analysis would prefer to have a communist regime back in power. It also appears that they want to enjoy better living standards, more like their Western neighbors, but they are not sure how to bring those standards about. None of these criteria, however, can help evaluate where the countries are economically and politically, nor whether they are "democracies" or close to being a democratic regime. This is why considerable disagreement persists among analysts



studying developments in the region regarding the appropriate analytical tools to be employed.

### Concepts and Definitions

An important caveat in cross-national comparative analyses is conceptual. Bringing concepts to a common denominator that is acceptable and recognizable across cultures is a notoriously contested task. If the definition of public opinion needs some leveling work, the concept of “government policy outcome” poses far more problems.

With respect to the concept of ‘public opinion’, the differentiations found in the literature are of limited use. The dichotomies between ‘special’ and ‘general,’ or ‘attentive’ and ‘general’ publics would be methodologically useful if consistent studies showed that only certain categories of publics vote. The outcome of elections, the issues of importance, and the approximate pool of representatives favored by constituencies would then be more easily identified by polling a sample of the category of publics who voted. However, even if substantial research has been done in the area of voting behavior, there are no acceptable results of the kind suggested above. If politicians knew who their targets were, they would win elections by addressing those audiences only. That, however, is not the case.

Some public opinion studies generalize public preferences across subgroups of an entire population by employing representative samples of selected populations (the equivalent of a ‘special publics’ category). That approach would not be of much help in finding out who would win general elections, what issues are likely to win popular attention, or which policies are of interest to whom. Political campaigns are run on broad

political agendas precisely in order to reach as large of a voter population as possible because there is no guarantee of voter turnout. This is why in the late twentieth century, politicians tend to pay attention to public preferences expressed through public opinion polls sampling the general population, which comprises the country electorate.

One good example of the fact that special publics, and therefore special interests do not win general elections is the case of Hungary's 1994 general elections, where the Hungarian Democratic Forum (HDF) ran on a specialized agenda of concern for the Hungarian minority outside of Hungary. The party lost the election despite pre-election polls showing significant popular support for the issues raised during the campaign. Studies have shown that the insistence of party leaders on a narrow issue made them unattractive to the general population, even if preliminary polls showed concern for the Hungarian minority living outside Hungarian borders.<sup>31</sup>

Romania's Party of National Unity Greater Romania (PUNR) is another case in which special interests have not won general elections. PUNR's political agenda is primarily concerned with defending the rights of Romanians in a region of the country with a large Hungarian population. PUNR does win votes in general elections and gains representation in the country's Parliament, but they never made a government, nor are they welcome in governing coalitions. The narrow interests that their party represents gives them less legitimacy to speak for the entire electorate.

A preliminary conclusion is that if V.O. Key is right, and "public opinion is the opinion that governments find it prudent to heed" then we should consider the views expressed by the constituency of a country through representative sampling of the general population as the politically relevant opinion. Many polls have been taken, covering many

topics. Some of them, like CBS or radio talk shows polls, are not “representative,” which makes the findings good for general consumption, but not necessarily relevant to those representatives who run for reelection, or who are trying to get into office.

The opinion polls used in this study were commissioned by the European Union and collected by institutes for public research from the region.<sup>32</sup> The polls sampled the general population, and asked roughly the same questions regarding the desirability of the introduction of a market economic system in each country. The opinion polls are followed between 1990 and 1997 to assess the direction of public support regarding the selected policy issue.

With respect to the concept of government policy outcome, each element needs to be treated separately. Constitutionally, “government” in Eastern Europe is understood to be the executive branch. However, with the exception of the President, who is elected by universal suffrage in all the countries under discussion except for Hungary and the Slovak Republic, none of the public servants in the executive branch are. Arguably, that would not make them directly representative and responsible to public opinion.

Executive servants are, however, designated to serve the public by, and sometimes from, the ranks of elected representatives. In Hungary, the elected National Assembly, which “derives its rights from popular sovereignty,” elects the President, the Prime Minister, and other senior public servants. The Prime Minister in turn designates the cabinet which is afterwards approved by the elected legislators. In the Slovak Republic, the National Council, whose members “shall be the representatives of the citizens,” elects the President, who in turn designates the Prime Minister. In Bulgaria, the Czech Republic, Romania, and Poland, the President, elected by universal suffrage, designates the Prime

Minister, who in turn forms a cabinet that will start functioning only after the endorsement of each Minister by the elected body of legislators.<sup>33</sup>

In the discussion of responsiveness of representatives, how is, then, “government” to be operationalized? As the legislative branch, which is directly elected by voters to represent their interests, as the executive branch, which is indirectly designated to serve the public by its elected representatives, or as both?

The answer is offered by the Constitutions of these countries. Bills, laws, or policies are submitted to the Parliament for approval both at the initiative of the executive and of the legislative branches. The exception remains Hungary, where the National Assembly drafts not only legislation, but also the program of government priorities. Arguably, assessing “government policy outcome” should then involve observing legislative and executive policy initiatives at Ministerial and legislative level.

“Government policy” is here defined as a complex conglomerate of legislative and executive decisions pursued on the basis of recommendations made by the people’s representatives. “Policy outcome” is the resulting state of the economy reflected in empirical indicators.

#### **Selection of Issue: Rationale**

Defining which policy issues are “important” to the constituency relative to the large number of issues that governments and representatives consider during their term in office is always a daunting task. Pierce and Converse find that even if one could design a list of issues ranked by importance to a particular constituency, identifying which individual citizens are part of that constituency remains a fairly impossible task.<sup>34</sup>

The selection of the policy issue to be analyzed in conjunction with public opinion in Eastern Europe was driven by two factors.

First, the general feeling of the electorate towards the issue had to be strong enough to be relevant to the analysis. As the available data shows, concern with the disastrous effects of the command economy was accompanied by strong popular demands for the introduction of the one economic system known to have created prosperous countries, the market economy. Although in none of the countries in the region the word “capitalism” was spelled out as the goal of the new societies in transformation, “market economy” or “market of Western type” were the phrases used in reference to the desired economic system in each country. To use a less academic illustration, a popular joke in the Communist world read like this: “What is Communism?” “Communism is the longest and most painful route from capitalism to capitalism.”<sup>35</sup>

In Poland, the first post-communist minister of finance and main architect of the Polish reform program, Leszek Balcerowicz, announced the government’s intention to “transform the Polish economy into a market economy, with the ownership structure changing in the direction of that found in the advanced industrial economies.”<sup>36</sup> The program was widely supported by the population.

In Bulgaria, after 35 years of ruling the country with old-line orthodox communism, Todor Zhivkov resigned, admitting in front of the Central Committee that the government had been unable to make a break-through in any sector of their work. Mr. Mladenov, his replacement, warned the Communist Party that there was no alternative to restructuring Bulgaria’s ailing economy and tightly controlled political apparatus. He told the Central Committee that “We have to turn Bulgaria into a modern, democratic and

lawful country,” just as popular demonstrations were starting to take place in Sophia demanding change.<sup>37</sup>

In Romania, the first post-revolutionary manifesto issued by the Front of National Salvation stipulated that Romania will seek the transformation of its economy into a “market economy.”<sup>38</sup> It was met with hails by large crowds gathered in the public squares of Bucharest to witness the December 1989 Revolution.

Table 1 summarizes trends in public opinion support for the creation of a market economy between 1990 and 1997 in the six countries under study.<sup>39</sup> Support in most countries was strongest in the beginning of the transition period, with decline in support to be observed in mid to late nineties. Strong support at the outset of the transition period was observed in countries where reforms were introduced at an early stage of the transition, such as Poland, Czechoslovakia, and Hungary. Weak support at the outset of the transition period was observed in countries where reforms were slow, such as Romania and Bulgaria.

**Table 1.--Public opinion on the creation of a free market economy**

Country	1990	1991	1992	1993	1994	1995	1996	1997
<b>Bulgaria</b>								
(right)	46	62	55	47	40	39	44	52
(wrong)	24	16	19	29	42	33	32	29
(don't know)	29	22	26	24	18	28	24	11
<b>Czech Republic <sup>a</sup></b>								
(right)	58	61	55	51	47	42	42	28
(wrong)	13	20	32	36	36	36	41	50
(don't know)	29	19	13	13	17	22	17	22

.

Table 1.--Continued.

Country	1990	1991	1992	1993	1994	1995	1996	1997
<b>Hungary</b>								
(right)	62	65	56	46	44	38	37	37
(wrong)	13	11	17	25	24	33	30	31
(don't know)	26	24	27	29	32	29	33	32
<b>Poland</b>								
(right)	61	56	56	53	49	62	60	62
(wrong)	14	21	23	24	23	16	24	19
(don't know)	25	23	21	23	28	22	16	11
<b>Romania</b>								
(right)		35	65	52	71	64	79	64
(wrong)		48	24	23	21	26	15	26
(don't know)		17	11	25	8	10	6	8
<b>Slovak Republic</b>								
(right)			51	40	42	39	40	35
(wrong)			36	44	42	39	42	45
(don't know)			13	16	16	22	18	21

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Notes: Figures in percentages. Between 1990 and 1997, the *Eurobarometer* question was "Do you personally feel that the creation of a free market economy, that is one largely free from state control, is right or wrong for (country's ) future? Except for 1990, the 'don't know's were inferred from the data. It is possible that some fraction of this percentage represents missing data. Romania was not included in the 1990 survey.

<sup>a</sup> 1990 and 1991 figures are for Czechoslovakia.

Even if expressed public and government support for the creation of a market economy seemed to go together in the beginning of the transition, it remains unclear if either publics or governments had a good understanding of the complexity of the system

that they were supporting, or the associated costs needed to bring it about. Public opinion studies reveal that “market economy” was often times equated with “the better life of the West” or abundance and consumption, and less often with competition, hard decisions about closing down unproductive plants and the associated layoffs, or business and managerial skills that needed to be acquired before abundance resulting from economic growth could occur.<sup>40</sup>

*Eurobarometer* analysts also noted that, although publics supported the creation of a market economy, a third of the respondents did not express an opinion in 1990, at the outset of the transformation period. This was interpreted as a signal that publics were poorly equipped to understand and participate in the upcoming transition, and that governments needed to provide more education about the principles of a market economy and the implications of transition in order to maintain popular support.<sup>41</sup> Large percentages of “don’t knows” are maintained throughout the period in Bulgaria, Hungary, and Poland, which raises questions about the publics’ knowledge about the basics of the system they were supporting, and their preparedness to accept the hardships of the transition.

The state of the economy was a widespread concern at the beginning of the transition, and the popular demands for the renunciation of the command economy were, as noted above, loud and clear. Observing public support for the introduction of a market economy was an issue of interest to many constituencies, therefore worthy of analysis.

The second reason for choosing the introduction of a market economy for the analysis of representation in the region had to do with the governments’ own motivation to introduce reform policies. All the governments of Eastern Europe expressed their



intention to be integrated within Euro-Atlantic structures such as the European Union and NATO. Demands on emerging democracies prescribe the presence of a functioning market economy as a prerequisite for integration. East European governments had to be motivated to change their economic system and to become part of the Euro-Atlantic structures that they aspired to. The penchant of governments to introduce market economy policies, laws, and structures imposed itself as the appropriate topic of analysis.

Additionally, observed indicators of national growth per Figure 5 below indicate that governments have taken actions conducive to a general trend of improvement of the economic situation in the countries of the region, although the trend is not steady nor without surprises.

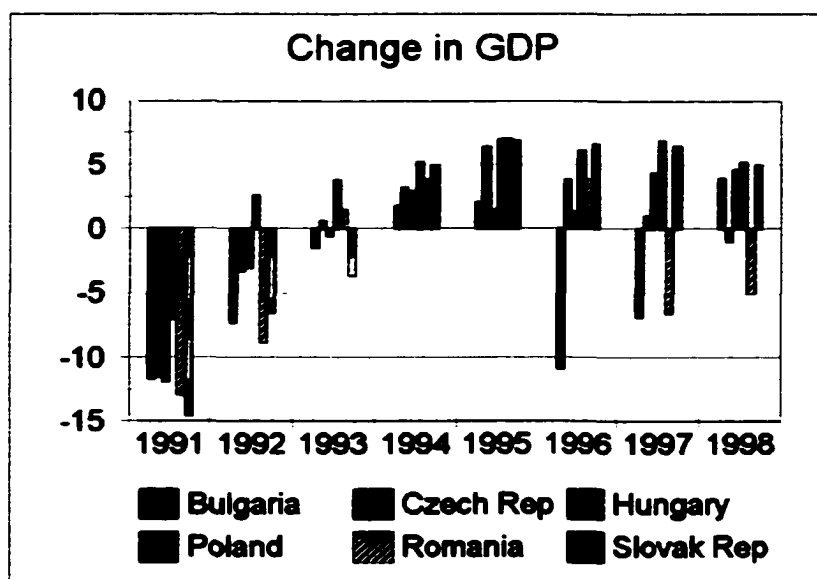


Figure 5. Percentage Change in Gross Domestic Product in Eastern Europe

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994 - 1998).

East European government efforts at reforming their countries' economies are reflected in the resulting growth of their national economies. Figure 5 summarizes the change of GDP growth across eight years of transition in the six countries under analysis. Figure 5 shows that in some countries which started their reform programs immediately after the collapse of the communist regime, like Poland and Hungary, growth resumed relatively fast and stayed positive. Other countries which started their reform policies early witnessed a period of growth, then of negative growth, only to end the period in economic recession, as in the case of the Czech Republic. Finally, Figure 5 shows that countries which started their reform programs more slowly, such as Romania and Bulgaria, have witnessed fluctuating and inconsistent growth, with negative growth as the common element for most of the transition period. It is indeed fair to say that it is not clear at all if these two countries have started transitioning to a market economy, nor when they would see a more predictable pattern of growth.

### Analysis

For each country, the direction of trends in public opinion are analyzed in relation to the direction of trends of macro-economic indicators. Trends in public opinion are also analyzed in relation to the direction of European Bank for Reconstruction and Development indicators of transition, to observe government progress in the introduction of policies conducive to the establishment of a market economy.

Finally, since public support in some cases declines as economies grow and seem to do well, opinion trends are analyzed in conjunction with additional data such as economic security, support for democracy, and election outcomes. We are looking for

possible explanations for the decline of public support that could be attributable to causes other than government performance on the question of a market economy.

Public opinion polls addressing the introduction of a market economy, GDP growth, and unemployment are charted in line diagrams as measures of policy outcomes. The diagrams are then analyzed for direction and distance between opinion support and policy trends. Within each country and across the region comparisons are thereafter offered.

A section on election results completes the analysis. The intent is to observe whether publics punish governments by voting them out of office, or if they reward them by supporting re-elections. Due to the limitations of the data and of the terms of analysis, a direct link cannot be drawn between the selected policy and the overall response of the electorate. However, if governments tend to be responsive to their publics, we would expect to see some political arrangements confirmed in office. If, for instance, public support for a market economy is matched by a strong economic performance, we would expect to see the government who delivered on the state of the economy to be re-elected. If support for the introduction of a market economy is accompanied by poor economic performance, we would expect incumbent governments to be voted out of office. Additionally, a discussion of political circumstances for each case is offered.

The reality is that a sound market economic system needs time to grow and develop into a solid, popularly accepted structure. In Eastern Europe, competence in designing such a structure is still questionable. Most of the countries in the region have a legacy of forty-five years on average under a totalitarian economy. The good intentions of

any elected government to design and implement a market economic system cannot and should not be expected to yield happy consumers in the first years.

### Hypotheses

In the beginning of this chapter, three possible models of responsive government behavior to popular support for a particular policy were hypothesized based on a rich literature. They are the responsive model, where the policy line adjusts in response to popular calls for a change of policy; the elitist model, where the government drives public support for a policy; and the non-responsive model, where the government pursues policies irrespective of public support.

As noted in the above preliminary observations, the dynamics of public support and of government action on policy are somewhat more complex than three possible models in Eastern Europe. Governments can act on policies without successfully delivering the expected results, with resulting decline in public support for reform; does it follow that governments were unresponsive? Governments can pursue policies that end up being unpopular due to insufficient institutional skills, or other factors related to lack of preparedness for a market economic system: does that mean that governments did not originally take their cues from the public? If governments take their lead from the public and attempt to reform the economy but the task proves too daunting and complex to produce the desired results of growth and well-being, should that count against their responsiveness to constituencies? Finally, publics may think they support policies without having a clear image of the possible implications of those policies; does it mean that policies should not be pursued unless the public shows signs of maturity and knowledge

on the subject matter? None of these questions would be answered in the affirmative even in an advanced market economy. A note of caution in the interpretation of events in Eastern Europe should therefore be in place at the outset of any analysis of government responsiveness.

A minimum of four hypotheses can be formulated to explain the dynamics of public support and government responsiveness in the region.

First, in accordance with the responsive model, publics support a market economy and governments heed to that public voice. Governments take action and formulate reform programs intended to introduce a market economy. Public opinion polls and EBRD transition indicators should be high, indicating strong support for policy and high levels of government action to implement policies of economic reform. If the outcome of policies is resumption of economic growth, we can infer that policies were designed to enhance the collective well-being of the nation. Increased GDP, good levels of foreign investment, and associated low levels of unemployment and of inflation are good indicators of a growing economy; increased GDP per capita and growth of nominal wages should indicate an increase in individual well-being.

Since growth and collective/individual well-being result from these programs, publics continue to support them in order to maintain the levels of growth. Opinion polls should indicate continued support for a market economy, even if fluctuations may be noted, to allow for the impact of transition hardships on the public mood.

If all of the above follow largely the direction hypothesized, we can infer that Eastern Europe is moving away from a tradition of government ego-centrism into a direction of government responsiveness and possibly accountability to their constituencies.

Even if programs of reform are not always selected in the right order, of sufficient depth or intensity, or implemented at the right speed,<sup>42</sup> if the outcome of years of transition is resumption and maintenance of growth, then East European governments must be taking the introduction of a new economic model seriously. That outcome in itself should count as a government commitment to represent the aspirations of millions of voters in the region.

If recorded indicators confirm this line of reasoning, publics should confirm governments in office during elections, to reward them for responsiveness. An analysis of electorate vote of confidence will conclude the analysis.

Second, if the elitist model is more prevalent in Eastern Europe, we should observe that governments pursue policies irrespective of public support. In this case, we should observe strong public support for a market economy and weak transition indicators. If that were the case, we can assess that publics expressed their choice towards the economic system, but governments chose to follow their own judgement. This type of behavior would be highly reminiscent of old leadership patterns, and a note of caution should be made about the direction of the country in which such governing tendencies prevail.

For the elitist case, publics would vote governments out, to reward them for not heeding to their voices.

A third possibility allows for a dynamic model of representation, where public support and government responsiveness move together in the same direction and eventually result in diminished support for policies. This hypothesis is somewhat counter-intuitive, but not to be ruled out of the existing possibilities.

If this hypothesis is correct in the East European case, we should observe support for a market economy maintained at high levels together with high indicators of transition until the economy starts to grow. As soon as growth is resumed, per macro-economic indicators, publics could turn their attention towards other policies that need sustained attention. Public support level can diminish since constituencies do not see the economy as the main concern of the transformation of their countries.<sup>43</sup>

If the above is true, we should expect public support to diminish as economic growth resumes, and we may see policy-makers voted in or out of office, depending on public perception of the next priority elements of transformation. A look at additional opinion polls will be necessary, to see in which direction the public moves in terms of priority policies, and how the governants who lost elections dealt with those issues.

Finally, it is possible that economic growth and satisfaction with personal well-being may not weigh as much in people's opinions as Western models hypothesize. In that case, corruption scandals, dissatisfaction with politicians and public morals, disillusionment with the works of democracy, or other issues may weigh more for East European constituencies than is usually believed. It is possible to observe increased levels of growth associated with a decrease in popularity for a market economy despite evidence of individual growth of well-being.

### Indicators

For the question on the introduction of a market economy, policy outcomes translate into indicators of a healthy economy, including growth of Gross Domestic Product (GDP), low unemployment, good proportion of private sector share of GDP, and

reform of enterprises, markets, and financial institutions. These indicators are available from the annual transition report of the European Bank for Reconstruction and Development.

Assessments of the success of the economic transition from a state-run economy to a market economy have been made during the past ten years by various commissioned studies and policy papers.<sup>44</sup> These studies have used a combination of growth, privatization, unemployment, inflation, and trade patterns indicators, to evaluate where each country was in the beginning of the transition, and in which direction they moved during the nineties. Overall, the Czech Republic, Hungary, Poland, and the Slovak Republic are considered the most advanced towards a market economy, with some studies considering them “consolidated markets”. Bulgaria and Romania are evaluated to have started the implementation of reforms more slowly, with Romania originally ahead of Bulgaria in the early nineties, then lagging behind by the end of the period.

Within each category, opinions differ regarding degrees of advancement of a market economy within and between countries. Some analysts consider Poland more advanced than Hungary, for instance, or Bulgaria ahead of Romania. These evaluating differences arise from the use of methodology to assess the introduction of the market economic system. Unfortunately, measures and ratings are different enough to make their combined use irrelevant from a comparative perspective.

The decision to use the ratings of progress towards a market economy by the *Transition Report* of the European Bank for Reconstruction and Development in the present chapter is justified by several considerations.



First, the *Transition Report* is an annual publication that has employed the same measures and indicators for growth and change in the region since 1994.<sup>45</sup> This gives the researcher the possibility of comparing trends across a longer period of time, within country, and across a region.

Second, by comparison with similar studies, the *Transition Report* takes a more ample comparative look at three distinctive elements of a market economy: privatization, liberalization, and institutional change. It looks simultaneously at the rate and depth of privatization (differentiating between large and small scale privatization, and restructuring degrees), at the degree and pattern of liberalization of markets and trade (looking at price liberalization, trade and foreign exchange systems, and competition policy), and at financial institutions reform (with ratings in banking reform, securities markets, and non-bank and other financial institutions). Third, the EBRD ratings are considered reliable by institutions such as the World Bank, who use them in their own evaluations of future programs to be developed in specific countries.

A few preliminary clarifications regarding the terminology and methodology employed by the *Transition Report* are necessary. Numerical indicators ranging from 1 (lowest) to 4 (highest) rank progress in a particular category. The indicators are intended to represent cumulative progress in the movement from a centrally planned economy to market economy in the following four categories: private sector share of GDP, enterprise restructuring and privatization, markets and trade liberalization, and financial institutions reform. The indicators do not reflect the rate of change in the course of each year.

For each category, the following clarifications are necessary. The “private sector share” of GDP represents EBRD estimates based on available statistics from official and

unofficial sources. The underlying concept of private sector value added includes income generated by the activity of private registered companies as well as by private entities engaged in informal activities wherever reliable information was available.<sup>46</sup> The classification system for transition indicators build on the judgement of the EBRD's Office of the Chief Economist.<sup>47</sup>

For the enterprise restructuring category, three indicators are calculated to reflect progress in large- and small-scale privatization, and in governance and enterprise restructuring. A score of "1" indicates little private ownership or progress in restructuring. A score of "2" indicates that comprehensive programs are designed and ready to be implemented, but that action is delayed on implementation. A score of "3" indicates that 25 per cent of large-scale enterprises are privatized, a comprehensive program for small-scale privatization is being implemented, and sustained actions to promote corporate governance effectively are being taken. A score of "4" indicates that more than 50 per cent of state-owned enterprises and farm assets are in private hands, privatization of small companies is complete, and substantial improvement in corporate governance can be observed.

For the markets and trade liberalization category, three indicators are calculated to reflect progress in price liberalization, trade and foreign exchange system, and competition policy. A score of "1" indicates that the state still formally controls prices, imports and exports, and that there is no competition legislation or institutions. A score of "2" indicates that prices, imports and exports are somewhat relaxed but most of the important categories are still state-regulated, and that competition policy institutions and legislation are set up. A score of "3" indicates substantial progress in price liberalization, removal of

almost all quantitative and administrative import and export restrictions are removed, and some enforcement actions to reduce abuse of market power and to promote a competitive environment. A score of "4" indicates comprehensive price liberalization, including utility pricing which approaches economic costs, removal of all import and export restrictions (except agriculture) and tariffs, full current account convertibility, and significant enforcement actions to promote a competitive environment.

For the financial institutions category, two indicators are calculated to reflect progress in banking reform and interest rate liberalization, and in securities markets and non-bank financial institutions. A score of "1" indicates little progress in either area. A score of "2" indicates significant liberalization of interest rates and credit allocation and the formation of securities exchanges. A score of "3" indicates substantial progress in establishment of bank solvency and of a framework of supervision and regulation, and substantial issuance of securities by private enterprises. A score of "4" indicates significant movement of banking laws and regulations towards BIS standards, and securities laws and regulations approaching IOSCO standards.

In the following country-by-country analysis, all the transition indicators are listed in tables showing the rate of progress towards the establishment of a market economy. Since the *Transition Report* was initiated only in 1994, there are no available indicators calculated according to this methodology for the first four years of transition, a period in which major economic changes were initiated. As a result, the line diagrams generated for these indicators are relatively uninteresting since they begin and end around the same value. Superimposing a public support curve with one transition indicator curve was therefore found to be of limited use; similarly, superimposing eight curves of transition

indicators with the public support curve proved to lack clarity and usefulness. Cumulating all eight rating indicators to create one indicator of transition also proved to be an unrealistic option since it would oversimplify the available data.

Consequently, two indicators were selected to reflect policy outcome curves in the line diagrams: GDP per capita and unemployment rates. The GDP per capita curve is a good indicator of the health of a country's economy, which in turn is primarily a function of sound economic policies. (The private share of GDP curve was found to follow roughly the direction of the eight transition rating indicators; consequently, by using it we could approximate the general direction of policies during the transition period.).

The use of the unemployment rate indicator is justified by the vast literature which argues that a healthy and growing economy is not necessarily an economy without unemployment, but rather one in which unemployment is maintained low at a low level. The restructuring of the communist economies was bound to bring about losses of jobs; it was also bound to create jobs if the privatization of that same sector was done simultaneously and efficiently. The use of the unemployment indicator in conjunction with growth of GDP per capita will prevent hasty conclusions about the health of the economy or the direction of the new economic system.

Several key lessons have been learned since the *Transition Report* was launched. First, just as there are many forms of a market economy, there are many paths of getting there. That is well illustrated by the varied ways in which countries considered front-runners in the process of transition, such as Poland, Hungary, and the Czech Republic have approached their transitions. Strategies of transition vary from shock therapy to gradualism, with resulting resumption of growth.

Second, there are important common features of well-functioning economies and of effective transitions, such as liberalization of markets and trade, and massive privatization.<sup>48</sup> The EBRD transition ratings help identify the development of such features within countries and across the region.

Third, while liberalization and privatization may be acted upon relatively quickly, by relaxing state control over the regulation of the economy, other aspects of a well-functioning market economy take substantially longer, such as the development of institutions and business practices required for the maintenance of a well-functioning market economy. “For markets to function well there must be robust entry into, and disciplined exit from markets to ensure that the most efficient and innovative producers are those that operate in the market.”<sup>49</sup>

Finally, transition and development are two different things. While transitions are difficult and complex processes which are usually associated with social costs, stress, and hardships, development entails economic growth and the advancement of standards of living.<sup>50</sup> For most of the period under discussion in this analysis, Eastern Europe has gone through a period of transition which does not necessarily guarantee growth, nor popular satisfaction.

At the end of the nineties, the EBRD *Transition Report* concludes that the imbalance between the development of markets and of institutions to sustain those markets is starting to be felt across the region. While recognizing that the costs of transition are the highest for those who should be the beneficiaries of reform, that is the constituencies, the EBRD report acknowledges that East European governments have still

to deal with the resulting growth of poverty and the increasing inequalities in income and wealth brought about by unsound practices of privatization and corruption.

In many East European countries, popular resentment towards reform stems from the fact that people with political influence, many times former communist bureaucrats, have made fortunes for themselves by the appropriation of well-functioning state-enterprises. The term “economic tunneling” is also starting to be used in conjunction with the practice of acquiring privatized enterprises, stripping them of money which is afterwards diverted illegally to private use, thus driving the enterprises into bankruptcy.<sup>51</sup> Corrupt practices, coupled with insufficient attention to reform of social services, and to providing a sound strategy for alleviating the impact of unemployment on masses of people can lead to a decline of support for economic reform and a market economy.<sup>52</sup>

## NOTES TO CHAPTER III

1. A. Lawrence Lowell, *Public Opinion and Popular Government* (New York: Longmans, Green and Co., 1926), pp. 8-15; Herbert Blumer, "Public Opinion and Public Opinion Polling," *American Sociological Review*, Vol. 13 (1948), pp. 543-546; Kimball Young, "Comments on the Nature of 'Public' and 'Public Opinion,'" *International Journal of Opinion and Attitude Research*, Vol. 2 (1948), p. 385.
2. Such differentiations allowed analysts to argue that while "the public" may be interested in one or two issues of general concern, different segments of the public shared views and interests on ranges of topics that were not necessarily of interest to everybody else. See Key, pp. 9-10. This differentiation, while attempting to explain dynamics of opinion formation, was in fact leaving "the public" in whose name decisions were proclaimed with no serious and consolidated mandate to give to their representatives.
3. The "mass public" was defined as those people who paid attention to the mass media and responded by moods of apprehension or complacency, while the "attentive public" was the much smaller group within the mass public who paid attention to public issues, was relatively well informed, and constituted a critical audience for the discussion of public affairs. See Gabriel Almond, "Public Opinion and National Security Policy," *Public Opinion Quarterly*, Vol. 20 (1956), pp. 371-378. A different category of definitions referred to the public, in a typically Burkean manner, as that small part of a population singularly fit to express an opinion on matters politik, the specially endowed, above-average citizens: "Public opinion may be said to be that sentiment on any given subject which is entertained by the best informed, most intelligent, and most moral persons in the community, which is gradually spread and adopted by nearly all persons of any education or proper feeling in a civilized state." W. A. Mackinnon, quoted in William Albig, *Modern Public Opinion* (New York: McGraw-Hill, 1956), p. 7. These definitions were rarely used, however, in serious analyses of public opinion formation or influence on policy.
4. General approaches limited opinion to "the acceptance of one among two or more inconsistent views which are capable of being accepted by a rational mind as true;" A. Lawrence Lowell, *Public Opinion in War and Peace* (Cambridge, Mass.: Harvard University Press, 1923), p. 12. Others to a "belief or conviction more verifiable and stronger in intensity than a mere hunch or impression but less strong than truly verifiable or positive knowledge." See Young, p. 387. Yet others to a "preference for a course of action." See Weissberg, p. 12. "Public" and "private" opinions were differentiated; an opinion was "public" if "it attache[d] itself to an object of public concern," and "private" if it represented the concern of a small social segment. Herbert Goldhamer, "Public Opinion and Personality," *American Journal of Sociology*, Vol. 55 (1949-50), p. 346. Finally, Key defined "public opinion" as "those opinions held by private persons which governments find it prudent to heed" (p. 14),

while the linkage between policy and opinion was conceptualized as “not in any precise mirroring of opinion by government, but in concern in good faith by governments for public preferences and in dedication to mass interests” (p. 412).

5. Laboratory and field research documented the influence of a variety of factors on public opinion formation, such as the passage of time, in Carl I. Hovland, Arthur A. Lumsdaine, and Fred D. Sheffield, *Experiments on Mass Communication* (Princeton, N.J.: Princeton University Press, 1949). For the audiences' image about sources of information, see Robert K. Merton, *Mass Persuasion* (New York: Harper and Brothers, 1946), p. 61; for the activity of opinion leaders, see Elihu Katz, “The Two-Step Flow of Communication: An Up-to-Date Report on a Hypothesis,” *Public Opinion Quarterly*, Vol. 21 (1957), pp. 61-78; for the social aspects of the situation during and after exposure to the media, see Eunice Cooper and Marie Jahoda, “The Evasion of Propaganda,” *Journal of Psychology*, Vol. 23 (1947), pp. 15-25; and Eliot Freidson, “The Relation of Social Situation of Contact to the Media of Mass Communication,” *Public Opinion Quarterly*, Vol. 17 (1953), pp. 230-238; for the personality pattern of the audience members, see Irving L. Janis, “Personality Correlates of Susceptibility to Persuasion,” *Journal of Personality*, Vol. 22 (1954), pp. 504-518; for level of frustration of the audience member, see Eleanor E. Maccoby, “Why Do Children Watch TV?” *Public Opinion Quarterly*, Vol. 18 (1954), pp. 239-244; and for the availability of “social mechanism[s] for implementing action drives”, see Gerhart D. Wiebe, “Merchandising Commodities and Citizenship on Television,” *Public Opinion Quarterly*, Vol. 15 (1951), pp. 679-691.
6. Jacques Ellul, *Propaganda: The Formation of Men's Attitudes*, trans. Konrad Kellen and Jean Lerner (New York: Vintage Books, 1965), p. 15.
7. Policymakers were judged based on the number of initiatives on a given policy, the intensity of their support, and their final vote. See Miller and Stokes, pp. 45-56; Esaiasson and Holmberg, chapters 2 and 4. Converse and Pierce (p. 664) combine legislative aspects with the will to represent, which “is crucial to the process of representation but is not a sine qua non for judging that any representation worthy of the name is occurring.”
8. Weissberg, pp. 68-74.
9. Trying to analyze the degree of knowledge politicians have about their constituencies, socio-psychological research has found that politicians displayed a strong tendency to believe that voters held the same views as themselves; therefore whatever course of action they chose was justified by invoking the principle of representation. See R.M.W. Travers, “A Study in Judging the Opinions of Groups,” *Archives of Psychology*, Vol. 37 (1941), pp. 5-73; D. Granberg, “Political Perceptions,” in S. Iyengar and W. McGuire, eds., *Explorations in Political Psychology* (Durham, N.C.: Duke University Press, 1993).



10. Van Schendelen did a parliamentary study in the Netherlands of M.P.s' perceptions of their electorate in 1983, placing M.P.s' perceptions of voters on a scale of "strong contempt" to "great respect." M.P.C.H. van Schendelen, "Learning from Recent Interviewing of Dutch M.P.'s," *European Journal of Political Research*, Vol. 11 (1983), pp. 413-426.
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12. Miller and Stokes, pp. 45-56.
13. Weissberg, pp. 70-82.
14. Ibid.
15. Achen, pp. 805-815.
16. Converse and Pierce, pp. 491-492.
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19. Pitkin, pp. 209-210.
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  27. Curry, pp. 446-461.
  28. Rose and Haerpfer, *Trends in Democracies*, pp. 14, 18.
  29. Rose and Haerpfer, *Adapting to Transformation*, p. 38.
  30. Section "3.1 Market Economy," in *Central and Eastern Eurobarometer*, No. 8.
  31. Geoffrey Evans and Stephen Whitefield, "Social and Ideological Cleavage Formation in Post-Communist Hungary," *Europe-Asia Studies*, Vol. 47, No. 7 (1995), pp. 1177-1204.
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  33. International Institute for Democracy, ed. *The Rebirth of Democracy: 12 Constitutions of Central and Eastern Europe*, 2nd edition, revised (Strasbourg: Council of Europe Publishing, 1996).
  34. Converse and Pierce, p. 522.
  35. Quoted by Serge Schmemmann, "In Hope and Dismay, Lenin's Heirs Speak," in Bernard Gwertzman and Michael T. Kaufman, eds., *The Collapse of Communism*, revised edition (New York: Times Books, 1991), pp. 3-4.
  36. Cited in "IMF Looking Ahead," *Financial Times*, July 16, 1989, p. A-10.
  37. Clyde Haberman, "Bulgarian Chief Quits after 35 Years of Rigid Rule," *New York Times*, November 10, 1989.
  38. *Scinteia* (Bucharest), December 24, 1989.
  39. Unless otherwise noted, public opinion surveys for each country are reproduced from *Central and Eastern Eurobarometer* as follows: For 1990, *Central and Eastern Eurobarometer No. 1*. Question on the creation of a free market economy, see Table 3.E. app, p. A3. For 1991, *Central and Eastern Eurobarometer*, No 2. Question on

- the creation of a free market economy, see Annex Fig. 6. For 1992, *Central and Eastern Eurobarometer*, No. 3. Question on the creation of a free market economy, see Annex Fig. 6. For 1993, *Central and Eastern Eurobarometer*, No 4. Question on the creation of a free market economy, see Annex Fig. 4. For 1994, *Central and Eastern Eurobarometer*, No. 5. Question on the creation of a free market economy, see Annex Fig. 4. For 1995, *Central and Eastern Eurobarometer*, No. 6 Question on the creation of a free market economy, see Annex Fig. 4. For 1996, *Central and Eastern Eurobarometer*, No. 7. Question on the creation of a free market economy, see Annex Fig. 3. For 1997, *Central and Eastern Eurobarometer*, No. 8. Question on the creation of a free market economy, see Annex Fig. 71.
40. Richard Rose and William T. E. Mishler, "Mass Reaction to Regime Change in Eastern Europe: Polarization or Leaders and Laggards?" *British Journal of Political Science*, No. 24 (1994), pp. 159-182.
  41. *Central and Eastern Eurobarometer No. 1*, p. 14.
  42. "Right" in the transition literature is usually referred to in retrospect, as a function of what could have been done better, rather than as a function of some ideal and known standard of how transitions should proceed.
  43. Adam Przeworski likened this situation with that of a patient who discontinues a treatment that is supposed to last for a long period of time as soon he or she starts feeling better. See Przeworski, endnote 40.
  44. Each of the big three international financial institutions, the World Bank, the IMF, and the EBRD, commissioned studies to assess the progress towards a consolidated democracy with a viable market economy. Reform was assessed in restructuring and privatizing the large state-owned enterprises, the small-scale privatization mechanisms, the banking system, the trade and investment patterns, etc. See, Gerhard Pohl, Simeon Djankov, and Robert E. Anderson, *Restructuring Large Industrial Firms in Central and Eastern Europe: An Empirical Analysis*, World Bank Technical Paper No. 332 (Washington, D.C.: World Bank, 1996); Michael S. Borish, Wei Ding, and Michael Noël, *On the Road to EU Accession: Financial Sector Development in Central Europe*, World Bank Discussion Paper, No. 345 (Washington, D.C.: World Bank, 1996); The Economist Intelligence Unit, which started a series of *Country Reports*, *Regional Overviews*, *Business Reports*, *Investing, Licensing & Trading Conditions Reports*, and *Country Profiles* to provide information that business and governments could use in their dealings with the region. The information provided on economic performance, ratings gathered from other institutions, and conditions for investors and the business environment aids potential investors, government officials, and non-governmental institutions in their dealings with the region. See Economist Intelligence Unit, *Economies in Transition* (London: 1999).

45. The realization that the process of transition yielded markedly different experiences in different countries, and that there was more than one way to transition to a market economy, induced the need for a comprehensive analytical approach to the transformation processes in the region. The *Transition Report* was commissioned in the early nineties by the European Bank for Reconstruction and Development, which promotes the transition of the region to a market economy and is an investor in the region. In 1994, the annual *Transition Report* was launched. Its goal is to chart the progress of transition from the command to the market economy and to identify and analyze the challenges of the coming years. The report is comparative and employs World Bank and IMF economic indicators to infer ratings of progress in the areas of enterprise privatization, liberalization of markets and trade, and institutional and legal reform. See Chapter I, note 30.
46. The methodology and conceptualization for each indicator in the *Transition Report* have been maintained throughout the period. Transition indicators definitions are given in conjunction with Table 2.1, "Progress in Transition in Central and Eastern Europe, the Baltic States, and the CIS," found in each volume.
47. Detailed descriptions of country-specific progress in transition are provided in the country-by-country transition assessments at the back of *Transition Reports* for 1998 and 1999. The classification system builds on the first *Transition Report*, in 1994. Pluses and minuses indicate countries on the borderline between two categories.
48. *Transition Report 1996*, p. 2.
49. *Transition Report 1998*, p. iv.
50. *Transition Report 1996, 1997, 1998*, chapters 1.
51. The term has been recently coined by Czech economist and presidential advisor for the economy, Jiri Pehe, but the reference to "tunneling" occurs in conjunction with economic analyses in other countries as well. See "Czech Economic, Political Failure Related," Commentary by Jiri Pehe in *FBIS-EEU-1999-0607* (26 May 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
52. *Transition Report 1998*, pp. 2-11.

## CHAPTER IV

### ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: THE CZECH REPUBLIC

#### INTRODUCTION AND BACKGROUND

After starting the transition to a market economy in 1989 from the most advantageous position of all the countries in the region, the Czech Republic ended 1999 in economic recession, behind all the other front-runner countries in the race to transition to a market economy.

If by 1995 the Czech Republic witnessed a growing economy, characterized by macro-economic stability and balance, strong internal currency, growing investments, low inflation and unemployment, and a transition that was remarkably less painful than anticipated,<sup>1</sup> starting in 1996, the GDP was in constant fall until the Czech economy fell behind the economies of Poland and Hungary, in 1998 and beyond. While throughout most of the early nineties, the Czech government was applauded by Western institutions for its economic reform program and consistency, recent EU reports evaluating progress towards accession into the European Union are critical of the sluggishness of the Czech government to implement needed institutional structures for compatibility with EU market pressures.<sup>2</sup> Figure 5 traced the curve of GDP percentage change, with a steady ascending line between 1991 and 1995, and negative growth until 1998.

In 1989, the economic situation of then the Czechoslovak Federation was characterized by a balanced budget, low inflation, and insignificant external debt. The proximity of the country to developed countries interested to invest, together with what

was considered a good reform strategy by the government put Czechoslovakia ahead of Poland and Hungary for the first years of transition to a market economy.<sup>3</sup>

Between 1990 and 1992, the Czechoslovak Federation witnessed economic growth and the launch of market economy reforms, although the Czech Republic remained steadily ahead of the Slovak Republic with respect to GDP growth, unemployment rates, and inflation. The contribution of the private sector to the creation of jobs also varied from republic to republic, with the Czech Republic leading in this sector as well.<sup>4</sup>

The story of the Czech Republic starts with the “velvet divorce” from the Slovak Republic at the end of 1992. The peaceful separation of the Czechoslovak Federation into two states on January 1, 1993 was facilitated by several factors. The rise of nationalist ferment in Slovakia became more evident after the collapse of the communist regime; Slovaks have long held that “rule from Prague” curtailed their national rights to self-determination. The political ambition of the leading nationalist figure and subsequent Prime Minister of Slovakia, Vladimír Mečiar, was also a driving force in the maintenance of a rhetoric of national self-determination. His electoral campaign of 1992 centered around increased political autonomy and full independence for Slovakia, which won him public sympathy and votes. The decision not to hold a referendum on the future of the federation after the 1992 elections further curtailed the possibility that the Czechoslovak Federation would remain one state.<sup>5</sup> Slovak popular support for more state involvement in the economy also ran counter to the general trends towards a market economy in the Czech Republic.<sup>6</sup>

The Federation eventually split in the aftermath of the 1992 elections. The Civic Forum, the group of political dissidents who negotiated the demise of the communist

government in 1989, not only lost the elections, but did not gain representation in the parliament. This election surprise signaled the public desire for change. The separation of the Federation was negotiated by the winners of the elections, Vladimír Mečiar, the winner of the Slovak elections, and Václav Klaus, the winner of the Czech elections. Their failure to negotiate a settlement on the make-up of the Federation led to the agreement on the separation of the Federation into two sovereign states.<sup>7</sup>

Each country pursued thereafter its own economic policies which, although emphasizing different priorities, continued to be characterized by economic growth. The Czech Republic remained steady in its pursuit of mass privatization, liberalization of the economy, and a policy of encouraging investment, whereas the Slovak Republic pursued a more left-oriented line, with the state more involved in economic decisions than the Czechs, or Western lending institutions, would have preferred.

#### TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS

The transformation of the Czech Republic from a command economy to a market economy has been placed by economists in the “fast track” privatization and liberalization category, together with Poland. A market-oriented reform process was initiated during 1990, and a comprehensive program was adopted in January 1991. The program stipulated that rapid privatization and liberalization were its two main goals for the first stage of transition to a market economy. Symbols of the state-run economy were disbanded, such as the State Planning Commission which was abolished before the 1990 parliamentary elections. Small-scale privatization and price liberalization were launched as early as January 1991.<sup>8</sup>

A sell-off of state assets was pursued in two waves of privatization. The first wave was launched by the Czechoslovak Federation in May 1992, and completed by mid-1993. It involved the distribution of shares in state firms through a voucher-based privatization scheme which created shareholders in both republics.<sup>9</sup> The balance of the assets was sold through direct sales and public tenders. The second wave of privatization started with the distribution of vouchers in September 1994. Internal debates over the most appropriate method of privatization delayed the completion of the second wave. In mid-1995, the government approved amendments to the privatization law which, in effect, canceled the second wave of privatization.<sup>10</sup>

A third wave of privatization commenced in the latter part of 1995, which consisted primarily of the consolidation of ownership of many enterprises. This type of privatization was led by the Investment and Privatization Funds (IPFs). IPFs, primarily run by banks and other financial institutions, have emerged as a result of the first two waves of privatization. They are dominant shareholders, holding at least two-thirds of the voucher points assigned between 1992 and 1995. In 1996, it was estimated that IPFs controlled approximately 30% of the existing shares, with holdings concentrated in 10 of the largest funds. Since IPFs were restricted in the amount of holdings they could have (no more than 20% of the shares of any one company, and the holding of one company could not represent more than 10% of the IPF's portfolio), some funds converted into holding companies which did not have to comply with the maximum holdings per company.<sup>11</sup>

The *Transition Report* indicators of progress towards a market economy (Table 2) show that the Czech government pursued a steady policy line of reforms on restructuring



and modernizing its economy. These indicators mean that, with respect to privatization, the Czech Republic had over 50% of state-enterprises and farm assets in private ownership and had completed the privatization of small companies as early as 1993. They show that significant and sustained actions were taken to promote corporate governance effectively, to liberalize prices and eliminate state procurement at non-market prices. They also show that trade restrictions were largely removed, promoting thus a free market exchange in and out of the country. In general, indicators show that some measures were taken to promote a competitive environment and that substantial progress was registered with respect to banking securities reform. The legal framework for encouraging investment was reasonably clear and well administered, with no discrimination between foreigners and domestic investors.

Given the Czech government's commitment to reform, reflected in good ratings of transition from a command to a market economy, its relative advantage starting on the road to a market economy in 1990, and the amount of foreign support that went into the Czech Republic's economy, why did the economy witness a decline in the latter part of the nineties?

Table 3 lists selected macro-economic indicators for the period 1991-1998. Most of these indicators follow an ascending curve of economic performance until 1995, and a descending curve between 1996 and 1998. Domestic growth and direct foreign investment were at their peak in 1995. Unemployment in 1995 was also close to its lowest rate in eight years (2.9 %; the lowest rate registered during this period was in 1992, with 2.6%), whereas the situation is reversed between 1996 to 1998 (unemployment going up to 5.2% in 1997, the highest rate in seven years of transition).

Table 2.--Czech Republic: Indicators of progress in transition to a market economy

	1994	1995	1996	1997	1998
Private GDP share	65%	70%	75%	75%	75%
Large scale privatization	4	4	4	4	4
Small scale privatization	4	4.2	4.2	4.2	4.2
Governance and restructuring	3	3	3	3	3
Price liberalization	3	3	3	3	3
Trade system	4	4.2	4.2	4.2	4.2
Competition policy	3	3	3	3	3
Bank reform	3	3	3	3	3
Securities reform	n/a	3	3	3	3
Investment law	n/a	4	4	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

Levels of GDP growth and unemployment are directly related, with GDP rates going up and unemployment rates going down until 1995. Conversely, GDP growth rates went down between 1996 and 1998, and unemployment rates went up. This indicates that national growth was related to the creation of jobs.

Table 3.--Czech Republic: Macro-economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-11.5	-3.3	0.6	3.2	6.4	3.9	1.0	-1.0
Consumer prices (average)	56.6	11.1	20.8	10.0	9.1	8.8	8.5	11.0
Gross average monthly earnings in industry (annual average, adjusted for consumer prices) <sup>a</sup>	-39.9	8.5	3.0	5.8	9.0	8.9	5.0	n/a
	<i>(% of labor force)</i>							
Unemployment	4.1	2.6	3.5	3.2	2.9	3.5	5.2	n/a
	<i>(in billions of U.S. dollars)</i>							
Trade Balance	-0.5	-1.9	-0.3	-0.9	-3.7	-5.9	-4.6	-3.0
Foreign Direct Investment	n/a	1.0	0.6	0.7	2.5	1.4	1.3	1.0

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 213.

<sup>a</sup> Calculated by author from EBRD data.

The gross average monthly earnings in industry indicates fluctuations in personal earnings, a phenomenon that is not surprising for transition economies. This statistic also shows a decline in average wages after 1996, although more data is needed to observe if the trend remained on the decline. Overall, this statistic indicates that wages grew during the period under discussion, even if the growth was neither steady, nor consistent. As will be noted below, this statistic does not indicate that the government followed a policy of wage restraint, which was highly recommended by the World Bank and the International Monetary Fund in order to improve the trade and current accounts.

The balance between exports and imports was negative throughout the period, indicating that imports remained the dominant element of foreign trade. If this imbalance

was at relatively modest rates until 1994 (under one billion dollars), starting in 1995 it jumped three-fold (close to four billion dollars). This trade deficit indicates that massive amounts of foreign currency were going out of the country as a result of increased domestic demand for foreign products. This phenomenon further depleted the national reserves and weakened the economy.

Finally, inflation (as measured by changes in consumer prices) decreased between 1992 and 1997, when the Central Bank was forced to let the koruna float. Details of this action will be discussed in more detail later in this chapter.

It appears that some of the problems that the Czech economy encountered since 1995 go back to the implementation of policies designed to introduce a market economy environment. The IPFs and the voucher scheme were two such mechanisms that are regularly mentioned in the literature of transition as having produced the opposite results than expected or designed.

As mentioned previously, most IPFs were still state-owned banks and other financial institutions who acquired large shares in formerly state-owned enterprises. However, upon acquiring the shares in state-owned enterprises, IPFs failed to follow the recommendations put forward by economic advisors for rapid restructuring. IPFs continued to subsidize the former state enterprises, which was in itself a disincentive for more profitable and competitive production. A net decline in profitability of IPF-owned enterprises was registered at the end of 1996. According to the Ministry of Industry, the tax profits in companies with more than 100 employees fell by 40%, and the rate of return on equity in non-financial organizations fell to 4.1%. General concerns were also expressed regarding potential conflicts of interest between the IPFs, the financial

institutions that managed them, and the industrial companies. In 1997, the government announced that the relationship between IPFs and the main banks would be reviewed.<sup>12</sup>

By 1998, the muddled situation of these IPFs became so evident, and subject to so much international criticism, that the Czech Parliament approved a law setting restrictions on IPF administration and functions. These measures were intended to strengthen fiscal discipline and make the funds more transparent in order to regain credibility.<sup>13</sup>

The voucher privatization scheme was also designed with short-term goals in mind, without thinking of the long-term implications of the policy. Originally leading to steady and massive privatization and an increase in the private share of GDP in the first half of the nineties (see Table 2), the voucher scheme also had downsides that were not thoroughly evaluated before it was launched.

It appears that a large share of the population who acquired vouchers sold them for instant cash to IPFs, which did not pressure the newly privatized firms into restructuring. The banks continued to subsidize the enterprises through loans, which was a disincentive to modernize and become efficient economic entities. As a result, former state enterprises ended up being largely owned by investment funds controlled or owned by state-owned banks, which continued to do what they knew to do best: subsidize loss-making economic entities.<sup>14</sup>

Finally, the economic decline was enhanced by the decline of the Czech currency. Throughout the first half of the nineties, the currency was the most stable one in East-Central Europe. Prime Minister Václav Klaus argued that it was even more stable than the currencies of Western Europe.<sup>15</sup> The increase in the trade deficit (see Table 3) and speculative attacks against the currency in 1997 caused it to fall. While the Central Bank

intervened by raising the interest rates sharply and introducing temporary restrictions on access to foreign currency, in May 1997 the Bank was forced to let the koruna float after effective devaluation.<sup>16</sup>

Other causes of economic decline and recession are related to market pressures inherent in a free market system. The imbalance between supply and demand for Czech products on the domestic market, associated with an increased demand for foreign products, contributed to slower growth rates of domestic production. The difficulty of Czech producers to penetrate new markets and the weak demand for Czech products in Western Europe further hit domestic production rates.<sup>17</sup>

While the Czech government took the position that these macro-economic developments could not have been foreseen, international advisors to the government argued otherwise. The Czech Republic enjoyed significant degrees of technical assistance from international organizations which gave them advice on how to counter these deleterious but inevitable results of competition in an international environment. *Agenda 2000*, to mention just one of these available sources of expert advice, recommended that wage pressure be kept under control and enterprise restructuring be sped up, so that domestic products become competitive in external markets as well.<sup>18</sup>

It appears that the government failed to act in time. Table 3 shows that wage pressure was not kept under control. Between 1992 and 1996, the annual average of the gross monthly earnings in industry increased constantly. In 1993, some restraint seems to have been recorded, with five percentage points drop from the previous year. However, this drop may reflect the shift in statistical calculations caused by the break-up of the Federation.

The same failure to act on recommendations was observed with respect to the recommendation to speed up restructuring of enterprises. As of 1997, the restructuring of enterprises was considerably behind, according to the *Transition Report*. This delay was partly due to the control that IPFs retained over the most promising of the domestic enterprises. Legislation passed in 1996 and 1997 finally dealt with the influence of IPFs on the restructuring of the economy, but steps were still needed to implement the legislation.

The trade balance deficit in Table 3 supports the hypothesis that market pressures have contributed to economic decline in the latter part of the nineties. The much higher volume of imports relative to exports coincides with the beginning of the economic decline and recession period in 1995. Until 1994, the trade balance was negative, but was at a modest level of under one billion dollars (with the exception of 1992, when it surged up almost two billion dollars). Starting in 1995, the negative balance quadrupled, reaching almost six billion dollars in 1996.

Finally, flaws of leadership and of the reform program, and lack of political vision were considered cumulative effects that led to the poor showing of the economy after 1995. Between 1992 and 1996, the Klaus government seems to have created the conditions for recession by not acting on recommendations, and by not insisting on the efficient implementation of the government's reform program. The manner in which the restructuring of the industrial sector took place in mid-nineties was acknowledged by government insiders as well, who described restructuring as having had the most negative influence on economic output.<sup>19</sup> The weakness of the banking system that was neither fully private nor state-controlled, and whose rules of functioning were evasive and subject

to interpretation was another element of domestic economic instability.<sup>20</sup>

After 1996, the lack of political consensus and economic vision of the Zeman government contributed to and maintained the recession. The lack of economic vision on an industrial policy compatible with the EU was considered the one main downfall of the administration that followed Klaus.<sup>21</sup>

### GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS

How did the outcome of economic policies affect public support for a market economy? Is there an observable relationship between policy outcomes and public support for the introduction of a market economy? Does that relationship reveal patterns of government responsiveness to their publics?

Figure 6 below traces the curve of Czech public opinion support for a market economy, and two indicators of policy outcome: the rate of GDP growth per capita, and the rate of unemployment. Figure 6 points to puzzling results. Between 1991 and 1995, while the economy was experiencing economic growth, illustrated by growing rates of per capita GDP, and relatively low levels of unemployment, public support dwindled and was in constant fall after 1991. In other words, as the economy was improving as a result of the introduction of market economy mechanisms, the public did not seem to believe that a market economy was the right system for the country any longer.

What factors account for the steady decline of public support for a market economy, and how should we interpret the relationship between public support and government policy? If the decline in support may be justified between 1996 and 1998 on account of the decline in economic performance discussed above, what factors account for



the decline in support between 1991 and 1995, at a time when the economy was performing well and very well?<sup>22</sup>

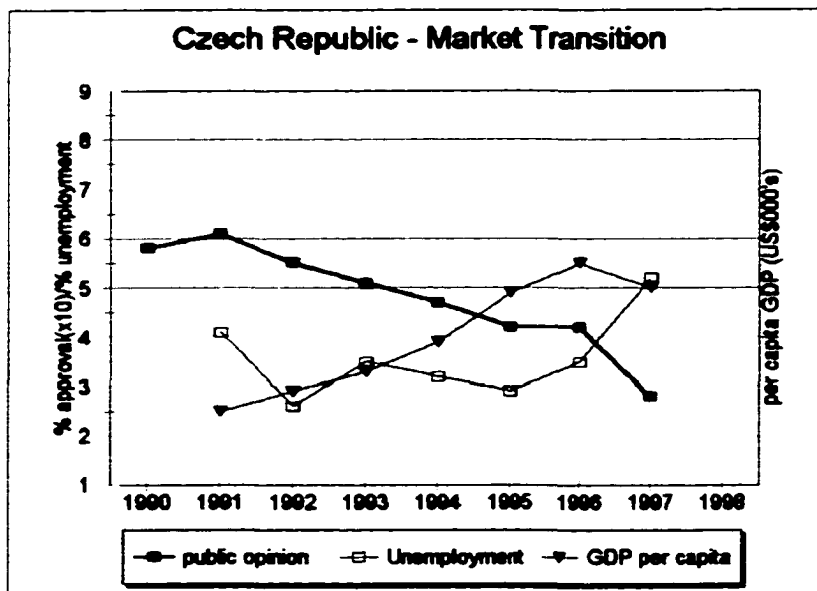


Figure 6. Czech Republic: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 213, and *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

The direction of the curves in Figure 6 points to a minimum of three alternative hypotheses regarding the relationship between public opinion and government policy on the issue of market reform in the Czech Republic.

First, drawing on the literature of dynamic representation, as public preferences change, policy changes to adjust to public demands. As the public favors a certain policy, policy starts to move in the direction of meeting popular preferences. In the Czech case, majorities of respondents supported the introduction of a market economy between 1990

and 1993, albeit with support falling by ten percentage points during this period. Policies of liberalization and de-centralization started being implemented, per transition indicators, to meet public expectations. The outcome of the packet of policies was a better performance of the economy, reflected in increased GDP (per capita), modest increases in personal monthly earnings (for industry employees), and low levels of unemployment.<sup>23</sup>

However, this model cannot adequately explain the reasons why, at a time when policy outcomes continued to move in the direction of meeting public preferences (between 1993 and 1995), public support for a market economy continued to drop. Dynamic representation is predicated upon the idea that policy adjustments to meet public preferences take place over a period of time, and that levels of policy compatible with levels of public support will only be noticed after a time lag since the observance of public preferences. Figure 6 however, points to a different phenomenon. As policy adjusts to meet the original public preference for the introduction of a market economy, public support shifts to the point where equal, then more respondents think that the introduction of a market economy system (therefore the associated policies needed to implement it) is wrong, rather than right for the future of the country.

Figure 7 below illustrates the dynamic of public opinion change on the question of whether the introduction of a market economy is right for the country.

In the beginning of the period, as large numbers of respondents believed that the market economy was the right answer for the future of their country, few respondents believed that it was wrong. As time elapsed and policies were introduced, lesser numbers believed that a market economic system was right, and more that it was wrong for their

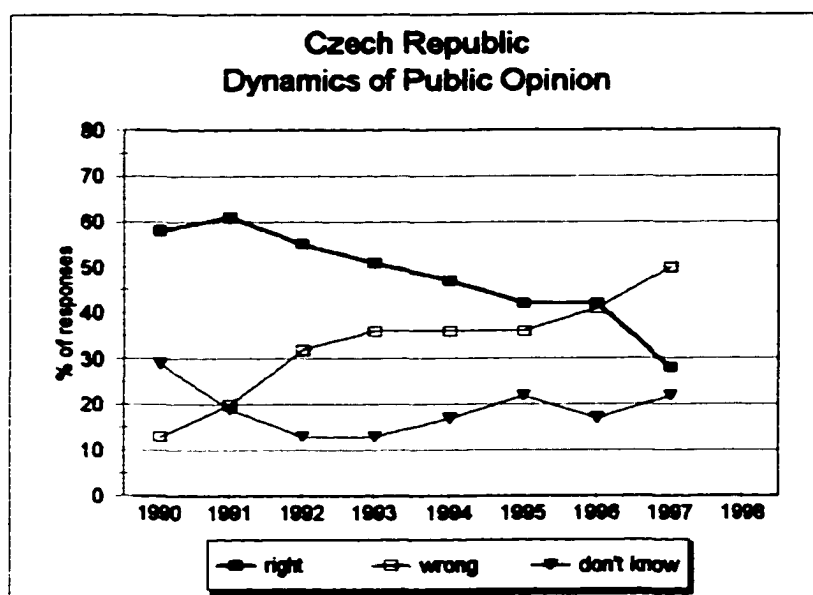


Figure 7. Czech Republic: Dynamics of Public Opinion on Support for the Introduction of a Market Economy

Data from *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

country. Finally, the proportion of respondents who did not know what to answer with respect to the introduction of a market economy was larger in the beginning of the period than at the end of the period. This rightfully indicates that in the beginning of the transition, there were more questions about the core principles of a market economy among the population, as World Bank and transition experts found. A steady rate of twenty percent or more of respondents not willing to venture a response on the question of a market economy was maintained for four years of the period under discussion. This steadiness may indicate that as market mechanisms were introduced, people had more questions about the viability or appropriateness of the selected mechanisms for the introduction of a market economy.

Overall, the dynamic representation model of analysis is of limited use to explain the dynamics of public support and government policy outcomes in the Czech case.

A second hypothesis suggests that there is a reverse relationship between policy outcomes in the transition to a market economy and public support for the introduction of a market economy. This is a counterintuitive hypothesis worth exploring, given that as indicators of a growing economy go up (Table 3), public support goes down.

This hypothesized reverse relationship is commonly attributed to the hardships of transition, the costs of unemployment, and the decline in personal standards of living brought about by competition, privatization, and restructuring. According to this hypothesis, as market economy mechanisms are introduced, associated social costs such as high unemployment are witnessed. Higher unemployment, determined by the shut down of unprofitable enterprises and privatization creates insecurity at the personal level. This insecurity is conducive to diminished support for the conditions which brought about unemployment, in this case market economy policies adopted by the government.<sup>24</sup>

A closer look at the direction of curves in Figure 6 offers a different picture. As unemployment goes markedly down between 1991 and 1992, and afterwards fluctuates around three percent until 1995, public support remains in constant fall. This seems to indicate that there is no direct relationship between unemployment and public support for a market economy. It is not rational to hypothesize that the public does not support policies that keep unemployment on a steady and low level, compatible with other market economies.

Additional information regarding personal standards of living confirm the view that there is no direct relationship between public support and costs of transition in the Czech

Republic case. Table 3 indicated that the gross average monthly earnings in industry witnessed positive growth throughout the entire period under discussion, with the exception of 1991. The Czech Republic, among the other countries in Eastern Europe, had better purchasing power and lower inflation rates which allowed the economy to grow, and the citizens to be comparatively less stressed than the citizens of countries like Romania or Bulgaria, for instance.

Table 4 below also shows that the Czech public did not feel threatened by the costs of transition. Even if in the first year of transition (1990) markedly more respondents believed that their personal financial situation would get worse (61%) rather than better (6%), the trend changed starting in 1991, with more respondents believing that their personal financial situation would either get better or stay the same (a cumulated 58%), than those who believed that it would get worse (34%). From 1990 until 1996 (the available data), the category of respondents who believed that their personal financial situation would get worse was in steady decline (from 61% to 26%).

Table 4.--Czech Republic: Public opinion on financial situation in the household for the next 12 months

	1990	1991	1992	1993	1994	1995	1996
Will be better	6	21	25	28	23	25	21
Will be same	27	37	37	37	43	43	45
Will be worse	66	34	33	31	28	25	26

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Notes: Figures in percentages. 1990 and 1991 figures are for Czechoslovakia. In 1990, the question was, "Over the next 12 months, how will your own financial situation change?" Starting in 1991, the question was "Over the next 12 months, do you expect the financial situation of your household will get a lot better, get a little better, stay the same,

get a little worse, or get a lot worse?" The 'get a lot better' and 'get a little better' categories were cumulated. The 'get a little worse' and 'get a lot worse' categories were cumulated. Starting in 1997, the question was dropped from questionnaires.

The high percentage of respondents who believed that their situation would get worse in 1990 is an understandable phenomenon for the beginning of the transition. In 1990, few people had an understanding of market economy mechanisms, or how those mechanisms would impact their personal lives. On the other hand, the steady decline in the rates of respondents who believed that their situation would worsen between 1991 and 1996 indicates low levels of stress regarding the changes that were being brought about by the new economic system.

On the other hand, Table 4 shows a fair split among the three categories of people who believed that their personal situations would get better, stay the same, or get worse. The category with the largest percentages throughout the period (except for 1990) is the middle category, of respondents who believed that their situation would not change in the following year. These numbers indicate that Czechs got used to the patterns of transformation of their economy, since they did not feel threatened in their personal financial situation, and they did not see the transition getting worse for their households.

The steady increase in the rates of respondents who believed that their personal situation would stay the same also point to two alternative hypotheses regarding public perceptions: either people felt that the course of the economic transformation was predictable enough and they had nothing to fear for their future; or they felt that "nothing will ever change", therefore there was not much they could do about what was going on in their country. Studies have repeatedly pointed towards an increased public apathy in

Eastern Europe in general, reflected in lower levels of voter participation, and a tiredness associated with democratic politics.<sup>25</sup>

The latter of the two hypothesis may merit attention at the end of the 90s, where a case could be made about public apathy resulting from a protracted period of political and economic instability. This hypothesis does not, however, explain early steady rates of respondents who believed that their situation would remain unchanged. The more likely hypothesis is that Czechs did not feel threatened by the economic changes in their country.

This hypothesis, in turn, supports earlier thinking about the relationship between public support for the introduction of a market economy and the associated costs of transition. There is little data to substantiate a hypothesis that the steady decline of public support for a market economy observed in Figure 6 is the result of social costs of transition that Czechs incurred. Low unemployment rates and steady increases in average monthly earnings for a large segment of the working community, the industrial sector (per Table 3), as well as confidence about the future (per Table 4) indicate that in the Czech Republic, the public did not feel threatened by the introduction of a market economy. If they did not feel threatened in their personal situation by the macro and micro-economic changes that the country was going through, what factors can better explain this steady decline of support?

A third possible explanation for the decline of public support for the introduction of a market economy is another counter-intuitive hypothesis, which has been formulated by Adam Przeworski in 1993, with respect to the Polish case but as a reflection of general trends in the region. Przeworski argued that East European publics hold somewhat irrational beliefs with respect to the future of the economy, indicative of individual

myopia. He argued that publics support the introduction of reforms in order to see the economy do better, even when reforms have a deleterious impact on their personal lives. They lessen their support as soon as beneficial reform outcomes are felt, and the economy is in better shape. Since they understand the need for difficult reforms and personal sacrifice in order for the economy to get better, they accept reform programs even when they are harsh, create substantial unemployment, and lower standards of living. People believe that these short-term effects of the introduction of a market economy system are necessary, and accept difficulties in the expectation of future personal well-being. Once the economy starts doing better, they think that reforms worked, therefore there is no need to continue them. He likened East Europeans with a patient who starts feeling better as a result of treatment, and then does not finish the “medication” despite the doctor’s prescription.<sup>26</sup>

If we apply this hypothesis to the Czech case, the following line of reasoning results: Czechs supported a market economy as long as the economy was in bad shape. As soon as the economy started doing better, Czechs felt that it was time to abandon continued reforms since their country was on a better course already and lowered their support.

This is an intriguing hypothesis which poses major analytical problems of compatibility with known models of analysis. It also suggests that individual lack of understanding of the requirements of a market economy, which has been repeatedly noticed by transition specialists, may be the strongest inhibitor of continued public support for transformation in the region.



If Przeworski's hypothesis applied across the region, we should notice decreased levels of public support in the Czech Republic as the economy got better, and increased levels of public support for the introduction of market economy reforms as soon as the economy started to decline, in 1995. What we see instead is decreased levels of public support for the introduction of a market economy irrespective of how the economy is doing. In other words, if up to a point this hypothesis seems to explain the relationship between public support and government policies, when the outcome of policies reverses (decline of economic growth), public support does not reverse as well (public support does not grow). The Przeworski hypothesis is also of limited use in explaining the Czech case.

#### GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT

Having tried to interpret the situation of the Czech Republic with the analytical tools offered by a broad literature of representation, we are forced to admit that existing models can only partially help explain the dynamics of government responsiveness and public opinion support. If there is little doubt that the Czech governments between 1990 and 1998 took action to follow the lead that their constituencies gave them with respect to the introduction of a market economy, a large question mark remains regarding the decline of public support for the introduction of this economic system despite government action.

A better perspective over this paradoxical situation is offered by the literature on elections. An analysis of the dynamics of public support versus the outcome of government policies from the perspective of after-the-fact responsiveness offers less quantifiable, but nevertheless strong indications for the decline of public support for

market economy policies, as well as popular perceptions of government actions. These indications are in keeping with the observations of EBRD and World Bank specialists regarding public expectations and disappointments, institutional weaknesses of the economic system in the making, and widespread corruption.

In essence, the after-the-fact model of representation is an elitist model. It argues that politicians run electoral campaigns, convince voters to elect them in office, then proceed with the implementation of their electoral promises. Before the next elections, voters have little or no possibility to reward politicians for their actions in office. When new elections take place, politicians perceived to have ignored, or not acted in conformity with their original promises are voted out of office.

In the Czech Republic, constituencies voted out of office, or weakened the position of incumbents to allow them a lesser executive power in virtually all rounds of parliamentary elections. Table 5 below shows the decline of support for the main party that replaced the Civic Forum at the helm of the Czech Republic, the Civic Democratic Party (ODS), throughout two consecutive parliamentary elections.

Table 5.--Czech parliamentary election results (1992-98)

Parties	1992		1996		1998	
	% of vote	seats	% of vote	seats	% of vote	seats
Social Democrats	6.5	16	26.4	61	32.3	74
ODS	29.7	76	29.6	68	27.7	63
ODA	6.0	14	6.4	13		
Communists	14.1	35	10.3	22	11.0	24

Data from *RFL/RL Research Report*, Vol. 1, No. 29 (17 July 1992), pp. 1-8; *FBIS-EEU-96-150* (2 August 1996), pp. 16-17; *FBIS-EEU-98-128* (September, 1998), pp. 14-15.

The results presented in Table 5 are oversimplified for the purpose of analysis and do not reflect all the political participants in the elections between 1992 and 1998. The after-the-fact model of representation allows for the following analysis in the Czech case:

Voters did not have adequate political or social leverage mechanisms to relay to their representatives their dissatisfaction with the policies pursued by the government, or the manner of politics altogether. As a result, they expressed their dissatisfaction by voting incumbents out of office in 1992, giving them insufficient votes to form another majority government in 1996, thus forcing them into a coalition that did not work, then finally voting incumbents out of office in 1998.

In the 1992 elections, the highly praised and much acclaimed Civic Forum which successfully negotiated the peaceful dissolution of the Communist regime in 1990 did not get representation in the country's legislature. The most often quoted reasons for this failure were the tiredness with the elitism of the Civic Forum, and a public perception that, as a party, the intellectuals who initiated and negotiated the political change in 1989 were in actuality removed from the everyday realities and needs of their voters.<sup>27</sup> As a result, policies pursued by a party perceived to be removed from its constituents ended up being unpopular even when the public believed that the policies were actually necessary for the country. When the confidence in the bond between voters and political leadership is weakened, support for whatever policies are pursued drops irrespective of outcome of policies. "Transition weariness" was the common denominator for the outcome and surprises of the 1992 elections, and later of the 1996 elections.

In the 1996 elections, tiredness with the politics of the Klaus government, political infighting, corruption scandals, and disunity among the top leadership, led to a public

posture of “I have had enough already.”<sup>28</sup> Since 1996, the phrase “the malady of Czech politics” has meant a communication crisis in which “everyone does his thing” with no consideration for a national goal, or to building consensus on issues of middle to long-term relevance to the country. Václav Klaus came to be perceived as an astute politician who, apart from being a good economist, was more interested in calling the political shots than in building the future of the Czech Republic. His arrogance, while being no secret in 1992 when he was voted in office, became his most notorious characteristic, despite the many good things he accomplished for his country. Transition indicators show that the most serious and remarkable measures to introduce a market economy in the Czech Republic date back to the Klaus administration.

In the 1998 elections, political cleavages were further exacerbated by the desire to gain representation in the Parliament, and to secure enough votes to create a majority government. The term “political tunneling” was launched in 1999, to describe the phenomenon where “at crucial moments, top politicians put their own interests and those of their parties above national interests.” “Deformed individualism” and “Bolshevik thinking” were other phrases designed to capture as much of the voter dissatisfaction with the works of their new political and economic identity as possible.<sup>29</sup>

Additional civic manifestations emphasize the notion that the Czech public is generally dissatisfied with the works of the new system and unprepared to recognize or accept the responsibilities of the new system. Recently, a civic group called Impulse ‘99 called on the government to resign, underlining the reasons for their request. The lack of government interest in finding out how the Czech public felt about the manner of post-communist politics, generally characterized as self-absorbed and insensitive to the public

voice, the absence of communication between government and constituencies, and a general public sense that post-communist politics turned out much like communist politics determined Impulse '99 to adopt the banner "Thank you, now go."<sup>30</sup>

Figure 8 below traces public support for the introduction of a market economy versus public satisfaction with the works of democracy. Figure 8 indicates that there may be a strong relationship between public perceptions of democracy, as a political system, and public perceptions of market economy, as the supporting economic system.

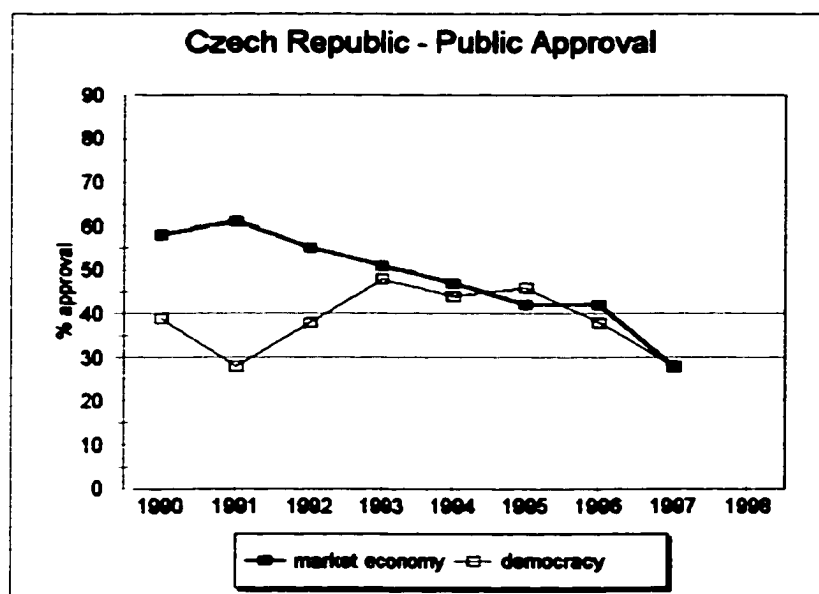


Figure 8. Czech Republic: Public Support for a Market Economy and Satisfaction with Democracy

Data from *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

Dissatisfaction with transition economics does not have to be associated with dissatisfaction with democratic politics but in the Czech case it seems to be. Levels of

public satisfaction with the works of democracy remain below a majority percentage even at their peak, in 1993. Moreover, levels of dissatisfaction with both the political and the economic system brought about by the 1989 changes are related after 1993, going in the same direction at roughly the same levels. This observation supports the hypothesis that in the Czech Republic, public support for economic policies went hand-in-hand with public support for elected governants, and not necessarily with the outcome of policies *per se*.

One last comment is worth making. According to Figure 8, public support for democracy was on the rise until 1993, and on the decline afterwards. Since 1993 is the year when the Federation broke apart, it is fair to consider the possibility that the general public dissatisfaction with the works of democracy was also related to the failure to keep the Czechoslovak Federation together. While that is a significant possibility, it not enough to account for the steady growing dissatisfaction with democracy and a market economy as registered in this chapter.

## CONCLUSIONS

From a representative democracy perspective, the Czech case can be best explained by an elitist model of representation. Figure 6 in effect shows that government policies have not been sensitive to the public mood over the course of the transition, or to the associated disillusionment with politics. In a representative democracy, the decline of public support for an originally popular policy, which is widely believed to be the only answer to an existing crisis, would be a strong signal to political representatives to listen to their constituencies' voice. In the Czech case, continued decline in public support seems to indicate that an adequate dialogue was not established between the political

leadership and the voters, and points of discontent only exacerbated with time. The literature on elections highlights many intangible inhibitors of public support for the introduction of a market economy which point in the direction of public apathy, but also in the direction of a reaction against a leadership insensitive to the public need for information and adequate preparation for change.

## NOTES TO CHAPTER IV

1. "The Direction of the Economy Was Up in the First Half: the Economic Situation in the Czech Republic," first of two installments of a report by "vac", based on Czech National Bank, Czech Statistical Office, Finance Ministry, and Industry and Trade Ministry documents, in "Economic Situation in the First Half of 1995" *FBIS-EEU-95-170* (September 1, 1995); also Vaclav Havel, address to the Czech Parliament in March 1995, "Havel Address to Deputies on State of the Nation," *FBIS-EEU-95-058*, pp. 7-9; and Ben Slay and John Tedstrom, "Privatization in the Postcommunist Economies: An Overview," *RFL/RE Research Report*, Vol. 1, No. 17 (April 24, 1992), pp. 1-8.
2. European Commission, *Agenda 2000 Enlargement; Regular Report 1998 from the Commission on the Czech Republic's Progress toward Accession*, Bulletin of the European Union, Supplement 13/98 (Luxemburg: Office for Official Publications of the European Communities, 1998) ; Commission of the European Communities, *Regular Report 1999 from the Commission on Czech Republic's Progress Towards Accession*, COM 503 final (Brussels: Commission of the European Communities, October 1999).
3. Lubomir Brokl and Zdenka Mansfeldová, "Czech Republic," *European Journal of Political Research*, Vol. 26 (1994), pp. 269-277.
4. Kamil Janacek, "Survey of Major Trends in 1991," *RFL/RL Research Report*, Vol. 1, No. 12 (March 20, 1992), pp. 31-32; Ivan Svitek, "An Assessment: Czechoslovak Economic Reform in 1991," *RFL/RL Research Report*, Vol. 1, No. 21 (May 22, 1992), pp. 45-49; Kamil Janacek, "Recent Czechoslovak Trends Offer a Mixed Picture," *RFL/RL Research Report*, Vol. 1, No. 32 (August 14, 1992), pp. 57-59.
5. Some analysts held at the time that the 1992 elections were going to be about the future of the Federation more than about politics or economics. They argued that if Slovak voters were going to throw their votes to parties that supported independence, that should be interpreted as a referendum on secession. Jiri Pehe, "Czechoslovakia: Parties Register for Elections", *RFL/RL Research Report*, Vol. 1, No. 18 (May 1, 1992), pp. 20-25.
6. Jiri Pehe, "Discussing the Elections: The Czech Point of View," Interview with Martin Palous and Petr Janyska, *RFL/RL Research Report*, Vol. 1, No. 26 (June 26, 1992), pp. 23-27.
7. Jiri Pehe, "Czechoslovakia's Political Balance Sheet, 1990 to 1992," *RFL/RL Research Report*, Vol. 1, No. 25 (June 19, 1992), pp. 24-31; Jiri Pehe, "Scenarios for Disintegration," *RFL/RL Research Report*, Vol. 1, No. 31 (July 31, 1992), pp. 30-33.



8. Svitek, pp. 45-49.
9. Vouchers are certificates or scripts that are distributed to the population that can be converted into shares in state-owned enterprises. Vouchers have been used in a few countries in order to speed up the privatization process and to secure a more equitable distribution of the wealth previously owned by the state. The downside of vouchers is that they can be traded for cash in order to generate instant money, thereby increasing current consumption and thereby inflation. That happened in the Czech Republic and in Romania. For a good discussion of privatization modalities and alternatives in Eastern Europe, see Ira A. Lieberman, "Mass Privatization in Central and Eastern Europe and the Former Soviet Union: A Comparative Analysis," in Organization for Economic Cooperation and Development (OECD), *Mass Privatization: An Initial Assessment* (Paris: OECD Publications, 1993), pp. 13-38; for a description of the voucher mechanism as it was published in 1991, see Josef C. Brada, "The Mechanics of the Voucher Plan in Czechoslovakia," *RFL/RL Research Report*, Vol. 1, No. 17 (April 24, 1992), pp. 42-45.
10. *Transition Report 1995*, p. 57.
11. Jiri Havel and Eugen Kukla, "Privatization and Investment Funds in Czechoslovakia," *RFL/RL Research Report*, Vol. 1, No. 17 (April 24, 1992), pp. 37-41; *Transition Report 1997*, p. 164.
12. *Transition Report 1997*, p. 164.
13. *Transition Report 1998*, p. 162.
14. See Steven Saxonberg, "A New Phase in Czech Politics," *Journal of Democracy* (1999), pp. 100-101.
15. Václav Klaus, "Klaus Expresses Skepticism about EU Bureaucracy," *FBIS-EEU-95-190* (October 2, 1995), p. 11.
16. *Transition Report 1997*, p. 165.
17. Václav Klaus described these macro-economic conditions as a function of domestic political and external market pressure factors that could not have been foreseen. See Václav Klaus, "Klaus Delivers Lecture on National Economy," *FBIS-EEU-97-054* (March 12, 1997), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
18. *Agenda 2000: Czech*, pp. 11-12.
19. Minister of Trade and Industry Vladimir Dlouhy exposed his views in an interview. Vladimir Dlouhy, "Minister Dlouhy Views 'Influences' on Industrial Output," *FBIS-EEU-97-077* (March 18, 1997), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.

20. "Zeman Responds to EU Criticism of Czech Entry Readiness," *FBIS-EEU-98-316* (November 12, 1998), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi> and "Prime Minister Zeman Claims Czech Economy in 'Crisis,'" *FBIS-EEU-98-335* (December 1, 1998), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
21. "CTK Carries Press Survey for 23 April," *FBIS-EEU-1999-0422* (April 22, 1999) <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
22. Richard Rose's findings seem to contest the findings of the *Eurobarometer* with respect to this question, but that is only an apparent contestation. In his questionnaire on approval of the "current state of the economy"--to be distinguished from approval for the creation of a market economy--Czechs approve of the current state until 1995. Afterwards, support drops considerably and dramatically. Rose concludes that the decline in support is, understandably, due to the poor performance of the economy. Rose and Haerpfer, *Trends*, pp. 46-47.
23. The drop in support between 1991 and 1993 can be easily attributed to the shock of macro-economic transformation. The *Central and Eastern Eurobarometer* argues that the continued decline of support for the creation of a market economy in the Czech Republic should not be interpreted as a judgement on the transformation process itself, but as criticism of the different measures to implement the transformation. *Central and Eastern Eurobarometer*, No. 7, p. 14. The previous discussion on the management of IPFs and the implementation of the voucher scheme is relevant to such an interpretation.
24. Adam Przeworski argues that as unemployment grows, people tend to simultaneously believe that reforms are at the same time necessary and deleterious. Reforms are necessary, because the economy needs to be re-launched and brought to a level of compatibility with other developed countries. Reforms are deleterious, because in the process of re-launching the economy, the peril of unemployment is very pervasive and real. Thus fear of unemployment overwhelms the effects of all other economic variables and makes people turn against market economy reform. See Preworski, pp. 164-165.
25. See Bibliography for *Central and Eastern Eurobarometer*; Richard Rose and Christian Haerpfer; Adam Przeworski.
26. Przeworski, p. 163.
27. Jan Obrman, "The Czechoslovak Elections: A Guide to the Parties," *RFL/RL Research Report*, Vol.1, No. 22 (May 29, 1992), pp. 10-16; "The Czechoslovak Elections," *RFL/RL Research Report*, Vol.1, No. 26 (June 26, 1992), pp. 12-19; "Czechoslovakia's New Governments", *RFL/RL Research Report*, Vol. 1, No. 29 (July 17, 1992), pp. 1-8.

28. "Czech Republic: Commentary on the Latest Political Scandal in SR," *FBIS-EEU-96-099* May 17, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>; "Czech Republic: Results of Elections Summarized," *FBIS-EEU-96-150* (August 2, 1996), pp. 16-17; "Zieleniec Comments on Policies, EU, NATO," *FBIS-EEU-96-183* (September 17, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
  
29. Zuzana Pitrova, "The CSSD Would Like to Act in Unison," *FBIS-EEU-98-069* (March 10, 1998), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>; Jiri Pehe, "Crisis Is Product of Political 'Tunneling'", *FBIS-EEU-1999-0607* (May 26, 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>; "Daily on New Czech EU Legislation", *FBIS-EEU-1999-0601* June 1, 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>; "CTK Carries Czech Press Survey for 25 September," *FBIS-EEU-1999-0925* (September 25, 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
  
30. "Czech Press Survey," *FBIS-EEU-1999-0422* (April 22, 1999), [http:// WNC.FEDWORLD.GOV/ cgi-bin/retrieve.cgi](http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi); "Zeman Considers Impulse 99 'Empty Declaration,' " *FBIS-EEU-1999-0802* (August 2, 1999), [http:// WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi](http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi).

## CHAPTER V

### ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: HUNGARY

#### INTRODUCTION AND BACKGROUND

At the end of 1999, Hungary was viewed as the most promising market in Eastern Europe, favored by foreign investors over Poland due to its higher stage of economic development.<sup>1</sup> This could have hardly been predicted in 1990, or even in the mid-nineties. The unforeseen and difficult twists of the transition to a market economy, accompanied until the mid-nineties by unexpected rates of GDP decline, high inflation, unemployment, and recession would have made such a premonition next to impossible. After years of declining trust in the direction of the economy, and of their country, hope and confidence seem to be making a modest come-back among the Hungarian population. The governing coalition voted in power in 1998 enjoys high approval rates after a year and a half of administration.

Of the other East European countries that underwent a seemingly successful transition to a market economy, Hungary had the most liberalized economy prior to the change of 1989.<sup>2</sup> Some private ownership and business was allowed by the communist regime as early as 1980, conducive to a minimum of market-oriented practices in services and tourism. A degree of decentralization was allowed in the area of large industrial organizations between 1980 and 1986. Wage policy deregulation followed in 1988, and imports were liberalized in January 1989.

When the train of regional political transformation reached Hungary in 1989, the first post-communist, liberal government of Joseph Antall promised the population rapid and irreversible economic growth, conducive to higher standards of living and to a modern, Western-like society.<sup>3</sup> Election promises regarding the improvement of standards of living did not materialize during his administration, nor during the administration of the Socialist Party, which followed at the government helm in 1994. Sustained transition hardships on the population led to a steady decline of popular confidence in a market economy and in democracy in general. The imbalance between the costs of transition to a market economy and the costs of social programs to offset the burdens of the population, unclear economic policies, over-emphasis on preferential political and economic priorities and, not in the least, political infighting and disunity have all contributed to a much poorer economic showing in the first half of the nineties than anticipated.

Hungary's post-communist economic development followed what is largely called "gradual" transition to a market economy.<sup>4</sup> Except for thorough and immediate liberalization of trade barriers in 1989, Hungary was much slower at adopting other market economy rules-of-thumb, such as price and wage liberalization, large-scale privatization, and restructuring of state-owned enterprises. In fact, concern with the social costs of rapid passage to a market economy 'rules' was the major inhibitor of the first reform program, the Kupa program (named after Mihaly Kupa, the first post-communist Finance Minister of Hungary). The underlying philosophy of the transition to a market economy of the Kupa program merits quoting:

There are only two solutions: Either you focus on a very rapid transition to markets expecting that the profits generated by the private sector will then be distributed to those abandoned along the way, or you proceed more prudently,

committing yourself not to exclude anyone from this process of transition. Since the actual state of our economy does not permit the first solution, we have adopted the second, placing priority attention on the social aspects of reform.<sup>5</sup>

Public opinion polls show that the Hungarian population was highly appreciative of this approach at the time. The highest support for a market economy registered between 1990 and 1998 was recorded during 1991, the year when these statements were made (see Chapter 3, Table 1).

The gradual transition to a market economy advocated by Kupa and Antall was characterized primarily by a strict monetary policy, to be assured by the creation of a Central Bank; wage regulation, so that inflation be kept under control; and subsidies to prices and to industry, to prevent massive bankruptcies. 1991 was defined as the year of privatization and the definition of property rights, 1992 as the year when inflation would be lowered and the convertibility of the forint would be prepared for, and 1993 as the year when growth would resume.<sup>6</sup>

By 1993, however, growth did not resume (although it was in sight), the general public mood was characterized by political and social exhaustion, and the appropriateness of the gradual approach to the transition to a market economy was more questionable than ever. Figure 5 showed that between 1991 and 1993, the economy witnessed negative growth, even if it managed to reduce the handicap somewhat in 1993.

Misplaced political priorities and the inability to reach consensus among the members of the coalition government are the factors found to have contributed to the decline of the economy and the popular dissatisfaction with the course of reform. The first post-communist government was made up of a coalition of liberal parties, the Hungarian Democratic Forum (HDF), the Smallholders' Party (ISP), and the Christian

Democratic Peoples' Party (CDPP) who advocated a return to the political line followed by the Horthy regime before World War II. Their political strategy was focused on three main directions: the well-being of the countryside gentry, sometimes accompanied by neglect for the needs and appropriate policies for the rest of the Hungarian social strata; reclaiming the glory of a larger Hungarian state; and insisting on a return to Christian values and social norms.

The over-emphasis on the role and benefits of one particular social stratum in post-communist Hungary was one instance of misplaced priorities. The political persistence on the need for restitutions of land property confiscated by the communist regime led to making the current land owners insecure about their future.<sup>7</sup> Additionally, the implementation of the restitution law was fraught with delays and bureaucratic obstacles, leading to a postponement of the first auctions of land until 1993. In the words of a political analyst, by the end of 1993 the entire program was going "nowhere."<sup>8</sup>

Reclaiming the policy of the Horthy regime was another instance of misplaced priorities. The open advocacy of a return to the Horthist territorial lines of the Hungarian state (which included parts of Romania and Slovakia) strained relations with Serbia, Romania, and Czechoslovakia, and hurt Hungary domestically and internationally.<sup>9</sup> These positions, taken as Hungary was officially applying for EU and NATO membership, reinforced the impression that the government was paying lip-service to the requirements of membership in both international bodies. One important requirement of membership is that member states abandon territorial claims beyond the borders which they had when entering either NATO or the EU. Another requirement is that member states have good relations with their neighbors. It took Hungary until 1995 to sign the good neighbor

treaty with Romania, and even longer to sign the treaty with Slovakia.

Prioritizing foreign policy over domestic economic policy was another instance of misplaced government focus. While the Antall government was assiduously pursuing a policy of Euro-Atlantic integration, domestic analysts were pointing out that the administration did not have an economic program to take Hungary into any of the desired Western institutions.<sup>10</sup> Some analysts even contended that the government was pursuing economic policies guided by foreign economists, in order to gain their approval and recommendation in the pursuit of European integration, rather than in order to secure a successful transition domestically.<sup>11</sup> For instance, they considered that the liberalization of imports under the conditions of the collapse of the COMECON markets left domestic producers exposed to hard foreign competition and eventually led to sustained trade imbalance and high inflation. A more strategic liberalization of imports could have been designed to accommodate integration requirements as well as domestic growth goals, and would not have hurt the domestic producers so badly.

Finally, the inability of the coalition members to reach consensus on most policies greatly contributed to popular dissatisfaction with post-communist politics. Political infighting, together with the perceived attempt that the government was trying to replace the communist ideology with an ideology of nationalism and religion accompanied a fifteen percent drop in popular support for the creation of a market economy within a three-year span.<sup>12</sup>

The absence of cohesion among coalition members was not aided by strong leadership either. Antall was frequently accused of setting priorities by himself, not consulting with the other governing partners before making decisions or announcing them



publicly, and sometimes ignoring the coalition altogether. By the beginning of 1992, the health of the coalition was seriously weakened and the polarization of political opinions led to a split within the governing coalition.<sup>13</sup>

It took the voting out of office of the liberals of Joseph Antall (who died before he saw the collapse of his administration) and the voting in power of the Hungarian Socialists for a market economy strategy to be formulated. In 1994, the Hungarian Socialist Party won the lion's share of the popular vote and formed a majority government in coalition with the Alliance of Free Democrats. The coalition immediately enacted an agreement with the IMF conducive to the stabilization of the economy.

The agreement came at a high price: the IMF imposed a severe austerity package in return for additional credits. With the adoption of the austerity program and the finalization of privatization legislation in 1995, the signing of a new IMF program for development in 1996 and the convertibility of the forint in 1996, the harmonization of competition laws with EU requirements in 1997,<sup>14</sup> Hungary's woes seemed to come to a halt and economic growth to resume through the end of the nineties. In 1998, Hungary was formally invited to start accession talk with the European Union. By that time, the population's trust in the introduction of a market economy decreased to below the fifty percent threshold and the public was reported to be apathetic about politics and democracy in general.<sup>15</sup>

#### TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS

The *Transition Report* indicators of progress towards a market economy, Table 6 below, summarize the progress of the Hungarian government in establishing market

economy legislative structures and institutions between 1994 and 1998, a progress that is remarkable and puzzling in many ways.

**Table 6.--Hungary: Indicators of progress in transition to a market economy**

	1994	1995	1996	1997	1998
Private GDP share	55%	60%	70%	75%	80%
Large scale privatization	3	4	4	4	4
Small scale privatization	4	4.2	4.2	4.2	4.2
Governance and restructuring	3	3	3	3	3.2
Price liberalization	3	3	3	3.2	3.2
Trade system	4	4.2	4.2	4.2	4.2
Competition policy	3	3	3	3	3
Bank reform	3	3	3	4	4
Securities reform	n/a	3	3	3.2	3.2
Investment law	n/a	4	4	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

These rankings do not differ significantly from those of the Czech Republic.

Hungary had over 50% of state enterprises and farm assets in private ownership by 1994, instead of 1993 as the Czech Republic. The privatization of small companies was complete by 1993 as well, and standards of performance typical of advanced industrial economies were in force as early as 1994, together with effective tradability of land.

Significant and sustained actions were taken to harden budget constraints and to promote corporate governance effectively through privatization combined with tight credit and subsidy policies by 1993.

Despite a slow start, substantial progress on price liberalization was made by 1993, moving in the direction of comprehensive price liberalization starting in 1996.

The trade system was liberalized by 1993, with the removal of most tariff barriers starting in 1994, matching the progress of the Czech Republic. Some actions were taken to reduce abuse of market power and to promote a competitive environment throughout the period, but with no progress beyond these attempts.

In banking reform, despite earlier assessments which argued that the Hungarian market resisted privatization and reform of their banking system,<sup>16</sup> the *Transition Report* indicators consider that Hungary was ahead of the Czech Republic starting in 1996. From 1996 on, Hungary moved from mere progress in the establishment of bank solvency and of a framework for prudential supervision and regulation, to significant movement of banking laws and regulations towards BIS standards, well-functioning banking competition, and effective prudential supervision. Transition indicators, however, do not gauge progress in bank privatization *per se*, which accounts for the difference in views regarding the efficiency and solvency of Hungarian banks.

In the area of securities reform, Hungary also went further than the Czech Republic to secure substantial issuance of securities by private enterprises, to establish independent share registries, secure some protection to minority shareholders, and to assist the emergence of non-bank financial institutions.

The legal framework for encouraging investment was clear and well formulated, with no discrimination between foreign and domestic investors. In this respect, both Hungary and the Czech Republic are ranked on an equal footing.

Table 6 indicates that the Hungarian government also pursued a policy line of economic reforms intended to lead to the introduction of a market economy, in response to initial popular demand for a market economy. More importantly, it indicates little variation between the outcomes of policies in a gradual approach to transition to a market economy, such as the case of Hungary, versus outcomes of policies in a more rapid approach to transition, such as the case of the Czech Republic.<sup>17</sup>

Overall, one would have expected that Hungary would have been equally, if not more prosperous, than the Czech Republic, rather than suffering the economic decline of the early nineties. In turn, the expected public reaction to a growing economy should have been support for the administration pursuing market economic reforms, in anticipation of future growth and improvements in standards of living. Transition indicators, however, do not shed light either on the reasons for the economic decline, or for the revitalizing of the economy in 1997.

Macro-economic indicators listed in Table 7 give insights into the dynamics of economic growth throughout the period. These indicators also show that the Hungarian economy did not grow at the same pace as the Czech Republic's economy.

Despite the good and very good progress in transition illustrated by the transition indicators, transition policies did not amount to positive economic growth until 1994. It should be noted, however, that GDP per capita, when measured in U.S. currency, grew steadily, although in small steps until 1994.

Table 7.--Hungary: Macro-economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.4	4.6
Consumer prices (average)	35.0	23.0	22.5	18.8	28.2	23.6	18.3	15.0
Gross average monthly earnings in manufacturing (annual average, adjusted for inflation) <sup>a</sup>	-9.4	2.9	2.2	4.7	-6.9	-2.0	3.8	n/a
	<i>(% of labor force)</i>							
Unemployment	7.4	12.3	12.1	10.4	10.4	10.5	10.4	n/a
	<i>(in billions of U.S. dollars)</i>							
Trade Balance	0.2	0.0	-3.2	-3.6	-2.4	-2.6	-1.7	-2.4
Foreign Direct Investment	9.1	10.1	11.3	11.2	15.3	16.8	21.4	24.4

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 217.

<sup>a</sup> Calculated by author from ERBD data.

The macro-economic indicators that best describe the impact of transition policies on the population, inflation and unemployment respectively are high throughout the entire period. This indicates that the pursuit of the gradual approach led to a protracted loss of purchasing power and high job insecurity at the individual level.

Additionally, the gross average monthly earnings in manufacturing are fairly unpredictable, with modest increases during years of recession, and dramatic decreases during years of growth. Since until 1996 (the available data) the share of industry in GDP was over three times larger than the agriculture share in GDP,<sup>18</sup> we cannot attribute the incremental increases in manufacturing earnings to shifts in the agriculture production or trade. The growth of average monthly earnings must have been the result of policies in the industrial and manufacturing sectors.

The government favored subsidies for some sectors of activity, to offset the social costs of transition. It is highly possible that the inconclusive growth in earnings was due to government subsidies to loss-making industries, to counter the effects of transition on the population employed in industry and manufacturing. Government subsidies prolonged the recession and delayed the recovery of the manufacturing sector by avoiding the necessity of restructuring or privatization. In effect, subsidies deepened the recession rather than easing the pain of the electorate. A more determined approach to restructuring could have turned loss-making industrial and manufacturing entities into productive units and would have spurred the growth of the national wealth at an earlier date.

The trade balance and foreign direct investment taken together, and in relation to the growth of the national wealth, also suggest interesting insights. While the trade balance was in excellent equilibrium and direct foreign investment was ten times higher than in the Czech Republic between 1991 and 1992, national growth was still negative but the plummeting growth rate was slowed dramatically.

Conversely, as the national wealth experienced positive growth, twice as much foreign investment was coming into the country by comparison to the first two years of transition, and twice as much wealth was going out of the country, per negative trade balance between 1993 and 1998. It appears that even if domestic production was starting to grow, less domestic goods were exported and more foreign goods were imported. This imbalance is a source of trade deficit.

In addition, the privatization of land led to an increased possibility for foreign firms to acquire land in Hungary and set up new enterprises. The products of these enterprises

were sold domestically, but primarily abroad, leading to a drain of currency and a weak domestic market.

The power of foreign companies to acquire land and set up new enterprises imbalanced domestic producers further. The possibility for domestic producers to set up and market their products successfully dropped, while an intolerance of foreigners rose steadily among all categories of Hungarians. In 1997, eighty-nine percent of Hungarians believed that foreigners should not acquire assets in Hungary without restrictions, while seventy-nine percent believed that Hungary would end up in foreign hands. Sixty-five percent of Hungarians believed that market competition should be restricted, eighty-four percent believed that domestic producers and buyers should be favored in the process of privatization of state enterprises. Towards the end of the nineties, an image of fear of the influence of foreign direct investment in Hungary emerges.<sup>19</sup>

#### GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS

How did the outcome of economic policies affect public support for a market economy? Is there an observable relationship between policy outcomes and public support for the introduction of a market economy? Does that relationship reveal patterns of government responsiveness to their publics?

Figure 9 below traces the curve of public opinion support for a market economy, the curve of GDP growth per capita, and the curve of unemployment.

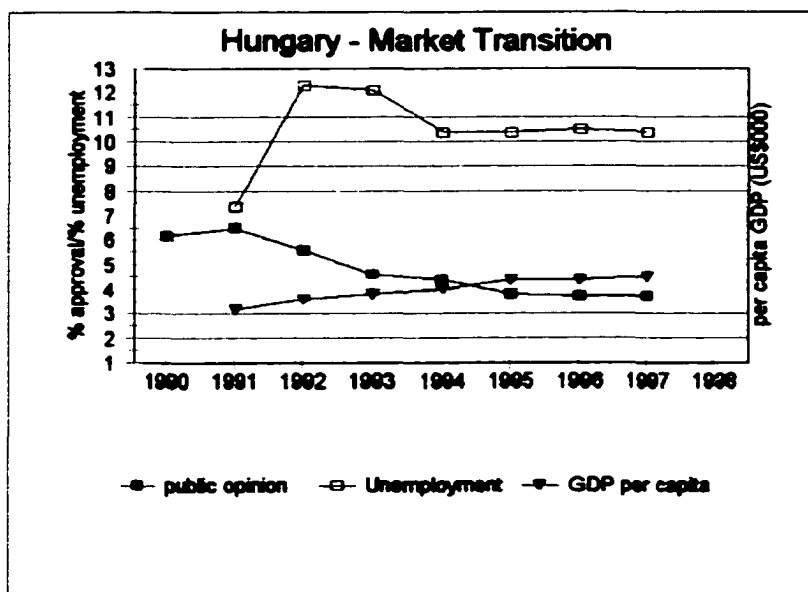


Figure 9. Hungary: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 217; *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

Figure 9 permits the following analysis of representation. First, as high levels of popular support for a market economy were maintained (between fifty and sixty percent until 1992), government policy slowly started to move in the direction of meeting popular demands. GDP per capita grew at a slow pace during the first four years of transition. GDP at constant prices experienced positive growth for the first time in 1994, one year later than the Czech Republic, and two years behind Poland (see Fig. 5 and Table 7).

Second, in the process of moving in the direction of meeting popular demands, deleterious policy outcomes such as high unemployment and inflation (see also Table 7) also resulted. Both amounted to negative impacts on popular support for the policies which produced such outcomes. This is illustrated by the steady decline of support for the



introduction of a market economy after 1991, when the rate of unemployment skyrocketed.

Third, starting in 1993, policy and opinion move almost in parallel, indicating a meeting of minds of popular expectations and government action. Policy was originally pulled up by support for market economy policies until 1993. After 1995, policy is ahead of public support, but both curves go in the same direction and the distance between them remains small. This indicates that the public continued to support market economy policies, albeit not at the same rate as in 1990. It also indicates that policy stayed the course of transformation and moved to meet popular demands.

This analysis allows for two preliminary conclusions. First, the Hungarian governments between 1990 and 1998 tended to be responsive to their publics and adopted policies resulting in the introduction of the desired market economy. Second, necessary difficult transition decisions resulted in deleterious effects on the population such as high unemployment. These effects, together with the faulty implementation of economic policies discussed previously, corruption, and other political disunity led to a decrease in public support for a market economy.

These deleterious factors, however, do not seem to have amounted to popular rejection of the market economy *per se*. The curve of public support did not continue to go down, as in the case of the Czech Republic. Instead, it stabilized around thirty-five percent after 1995, and remained at that level through the end of the period.

Additional data confirms and complements these conclusions. Figure 10 below traces the curves of public opinion on the question of whether a market economy was right or wrong for the country. Figure 10 shows that as high percentage levels of

Hungarians believed that the free market system was right, low percentage levels believed that it was wrong, in the early nineties. As costs and hardships were experienced, fewer Hungarians thought that a market economy was right, and more that it was wrong. Finally, when the economy stabilized and growth resumed, levels of approval and disapproval of a market economy stabilized as well, between thirty and forty percentage points, with slightly more Hungarians believing that the market economic system was right, than that it was wrong. The situation of the third category, of Hungarians who did not know how to answer the question, will be discussed in the next section.

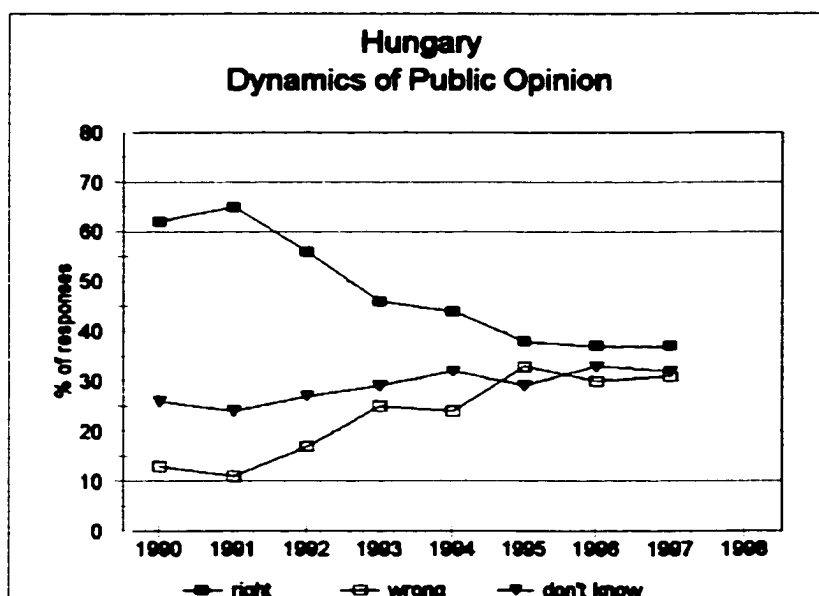


Figure 10. Hungary: Dynamics of Public Opinion on Support for the Introduction of a Market Economy

Data from *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

Figure 10 also suggests that even if more Hungarians were in favor of a market economy than against it, the Hungarian society was polarized on the question of the appropriateness of the system for the country. Less than ten percentage points separate supporters from non-supporters of the system. This indicates that the benefits of the system were not as equally spread across the social spectrum as the government originally intended. This polarization also supports the views found in the literature about the fear of Hungarians of a take-over of their country by foreigners.

Additionally, Table 8 below supports the preliminary conclusion that deleterious effects of the transition, such as personal economic insecurity, were a major factor in the decline of popular support for a market economy. Questioned about the odds that their personal financial situation would improve in the next twelve months, consistently larger percentages of Hungarians believed that their personal situation would get worse than that it would get better between 1990 and 1996.

Table 8 displays a sustained contrast between the percentage of Hungarians who believed that their situation would get better, and those who believed it would get worse. The proportion of 'better' to 'worse' is 1/12 in 1990, 1/2 in 1991, 1/4 in 1992, roughly 1/3 through 1994, 1/5 in 1995, and roughly 1/3 in 1996. The maintenance of this trend throughout six years (granted, the harder years) supports the conclusion that transition costs resulted in high economic insecurity, which is in itself the strongest deflector of public support for reform.

The Hungarian case is somewhat more predictable than the Czech case, in that decline of public support for a market economy can be linked to negative outcomes of economic policies, such as high levels of unemployment, inflation and negative growth.

**Table 8.--Hungary: Public opinion on financial situation in household**

	1990	1991	1992	1993	1994	1995	1996
Will be better	6	20	13	17	15	11	15
Will be same	18	31	27	28	23	19	26
Will be worse	74	39	52	46	51	63	53

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Notes: Figures in percentages. In 1990, the question was, "Over the next 12 months, how will your own financial situation change?" Starting in 1991, the question was "Over the next 12 months, do you expect the financial situation of your household will get a lot better, get a little better, stay the same, get a little worse, or get a lot worse?" The 'get a lot better' and 'get a little better' categories were cumulated. The 'get a little worse' and 'get a lot worse' categories were cumulated. Starting in 1997, the question was dropped from questionnaires.

Analysts of the region have long held that fear of unemployment overwhelms the effects of all other economic variables combined, and makes people turn against reform.<sup>20</sup> Unemployment alone can thus account for the fact that, despite resumption of economic growth in 1994, the Hungarian population was skeptical about a market economy and no longer supported it as strongly as in the beginning of the transition.

This phenomenon of gradual decrease of support, however, is understandable, and was predicted by World Bank and other economic analysts. Skepticism arising from the difficult conditions of a transition should not count against the governments' willingness to take the chance of becoming unpopular by introducing a system that was both desired by the population and assumed to produce better standards of living in the future. The element that counts in an analysis of representation is the direction of policy and opinion considered together. From that standpoint, the Hungarian case points towards a responsive government.

## GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT

Does an analysis of after-the-fact voter behavior offer additional insights into the relationship between the Hungarian governments of 1990 and 1994, and their publics?

Table 9 lists the results of three consecutive parliamentary elections, and the voters' reaction to these administrations.

Table 9.--Hungary parliamentary election results (1990-98)

Parties	1990		1994		1998	
	% of vote	Seats	% of vote	Seats	% of vote	Seats
Hungarian Democratic Forum (HDF)	42.9	164	11.7	37		17
Hungarian Socialist Party (MsZP)		33	32.9	209	32.2	134
Alliance of Free Democrats (SzDSz)	23.8	92	19.7	70	7.9	24
Smallholders' Party (FKGP)	11.4	44	8.8	26	13.7	48
Christian Democratic (KDNP)	5.4	21	7.1	22	2.6	0
Young Democrats (FIDESz)	5.0	21	7.0	20	28.2	148
Hungarian Life and Justice (MIEP)					5.5	14

Data from *Keesing's Record of World Events*, News Digest for April 1990, p. 37380 and News Digest for May 1994, p. 40015; Edith Oltay, "The Coalition Government," *Report on Eastern Europe*, No. 48 (29 November 1991), p. 51; Adrian Karatnycky, Alexander Motyl, and Charles Graybow, *Nations in Transit 1998: Civil Society, Democracy and Markets in East Central Europe and the Newly Independent States* (Freedom House: 1998), pp. 278-279.

Table 9 shows strong popular support for market economy-oriented parties in the first post-communist elections of 1990. The Hungarian Democratic Forum (HDF), the Alliance of Free Democrats (SzDSz), and the Smallholders' Party (FKGP) who ran on a platform of economic reforms came in first, second and third. The Socialist Party (MsZP), formerly the communist party won weak popular support, gaining a small number of seats in the parliament. The HDF, SzDSz, the FKGP and the Christian Democratic Party

(KDNP) formed a coalition government and started introducing the first market reforms. As a result of these reforms, policy and opinion started moving in the same direction towards the end of their term in office, per Figure 9.

In 1994, the HDF was clearly voted out of office, gaining only a fourth of the popular support that brought them to power in 1990. They lost to the Socialist Party and the Free Democrats, who also formed a coalition government and continued the introduction of market reforms through 1998. Figure 9 shows that throughout the four years of the Socialists' administration, policy and opinion moved together in the same direction.

Despite government responsiveness in the area of economic reform, the Socialists also lost re-elections in 1998. However, they lost by a small margin and gained enough representation in the parliament to be a strong opposition to the winning coalition government of the Young Democrats. In effect, the number of voters who voted for the Socialist Party was virtually the same in 1994 and in 1998 (32.% versus 32.2%). Why did the voters punish incumbents in the Hungarian case? Since both the HDF and the Socialist administrations showed responsiveness to the public's demand for the introduction of a market economy, and their concerted policies eventually brought about economic growth and international praise for the manner in which the transition took place, how can we interpret the voters' dissatisfaction with incumbents in these two elections?

If we look at these two administrations' decisions on the manner in which to proceed with the transformation of the economy, versus electoral promises, factors other than economic policies stand out as possible explanatory variables. It appears that the mechanics of the introduction of market economic measures, the lack of systematic

information and education of the public on the hardships of transition, and the pace of reforms versus popular expectations all contributed to a tarnished public image of these administrations, and turned the public against them. Political infighting and “crazy parliamentary debates” further exhausted public patience, while corruption scandals, many times associated with dubious deals with foreign companies lowered the public’s trust in the incumbent administration.

First, the mechanics of the introduction of a market economy were not well considered. The 1990 government led by Antall formulated a vision for where the Hungarian economy should be by 1993. A vision, however, does not translate into a sound economic program. Several economic analysts pointed out that the implementation of the economic program was short-sighted and uncoordinated with domestic and international factors of economic development. The policy of restitutions did not coordinate with a policy of property security for current real estate owners, creating nervousness and insecurity at all levels. The slow reform in the banking sector did not coordinate with the booming of small and medium-sized enterprises which needed credits in order to be able to compete on the newly created market. The liberalization of trade did not coordinate with a policy of either protection, or efficient restructuring of domestic enterprises, to avoid the destruction of domestic production.

Finally, privatization was done, as in many other places across the region, in a faulty manner, creating a false image of the amount of former state property transferred to private hands.<sup>21</sup> During the period of greatest privatization (1992-1993), public support for the introduction of a market economy dropped twenty percentage points and never got back to the levels of the early nineties. In 1995 and 1996, Prime Minister Horn himself

admitted that the mechanisms of implementation of a market economy had been faulty, which delayed the anticipated well-being for the majority of the population.<sup>22</sup>

Second, the public was caught unprepared by the tremendous changes of the early nineties. The public was not informed, nor educated on issues such as the difficulties laying ahead in the process of transition,<sup>23</sup> or the associated costs of transition. Both the 1990 government of Antall's liberals and the 1994 government of Horn's socialists kept the Hungarian population marginally informed about the likely negative effects of the policies they were pursuing. The large and increasing percentages of Hungarians who did not know how to respond to the question on the introduction of a market economy observed between 1990 and 1997, per Figure 10, confirm this lack of information. If the polarization of the population on the policy issue is understandable, with a third in favor and a third against the market economy, having a third of the population not knowledgeable about the issue indicates a serious problem of communication between proponents of policy and recipients of its results.

Third, the pace of reform versus popular expectations added to the general weariness against the economic transformation process. Prime Minister Antall fostered the promise of a better life for a majority of the population during his administration. The slow pace of reform, the negative GDP, the high inflation and unemployment did not bring about any of the promised well-being during his administration. On the contrary, after two years, he was considered to be a Prime Minister who pursued policies to please one segment of the society while ignoring the others. He was also thought to have discredited the notion of democracy and of market economy by underperforming.



Prime Minister Horn also promised rapid improvements in living standards, against the advice of his party's chief economist, Lazlo Bekesi. Bekesi went as far as to publish his protest against the "populist" electoral strategies of his party, warning that promising the social security of the Kadar years was political demagoguery meant to take advantage of the public nostalgia for those times in order to win over as many voters as possible. In the medium-term, he warned, the Hungarian economy would witness more contraction, and social welfare would have to be curtailed since there were no more funds to support expensive social programs.<sup>24</sup>

The Socialist Party won the 1994 elections, but within six months, Prime Minister Horn was forced to admit that the social welfare system could no longer be sustained at the current levels. The loss of a majority of votes in 1998 can be traced back to his recognition of failure on the issue of social safety net, as well as on several other failures to meet electoral promises.

Overall, public dissatisfaction with political leaders translated into lowered support for a market economy and for democracy as well. Figure 11 shows that the public satisfaction with democracy maintained itself at low levels throughout the entire period, oscillating between the twenty and thirty percentage point line. The public apathy and dissatisfaction with politics in general, mentioned so often in the literature is evident in this figure.



Figure 11. Hungary: Public Support for a Market Economy and Satisfaction with Democracy

Data from *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

## CONCLUSIONS

Of the front-runner countries in the race to transition to a market economy, Hungary remains the country that took the longest to experience positive GDP growth. At the end of ten years of transition, it is also the country considered to be the best environment for foreign investment among the other East European countries.

In terms of government representation of constituency interests on the question of the introduction of a market economy, Hungary points in the direction of a responsive governing style. Two consecutive administrations pursued, with higher or lower degrees of success, the introduction of policies conducive to the creation of a market environment, per transition indicators, and to economic growth, per macro-economic indicators.

However, the slowness of reforms and the long time Hungarians had to wait to experience economic growth contributed to a decline of popular support for the policy pursued.

Even with the 1999 positive evaluations of the economy, it remains unclear if the general population is comfortable with the economic direction of their country. Polls show widespread dissatisfaction with the disproportionate amount of foreign investment vis-a-vis domestic investment in the country, and with the low degree of control Hungarians feel they have over their economy. It remains to be seen whether the improvement of the economy will generate more public trust in a market economic system and will restore trust in democracy.

## NOTES TO CHAPTER V

1. "Berlin Businesses to Boost Presence in Hungary," *Interfax Hungary Daily Business Report*, Headline News, Vol. 1, No. 155 (October 5, 1999) (0155).
2. Gabor Bakos, "Hungarian Transition after Three Years," *Europe-Asia Studies*, Vol. 46, No. 7 (1994), pp. 1189-1214; Jan Adam, "The Transition to a Market Economy in Hungary," *Europe-Asia Studies*, Vol. 47, No. 6 (1995), pp. 989-1006.
3. Judith Pataki, "Hungarian Government Midway through Its First Term," *RFL/RL Research Report*, Vol. 1, No. 24 (June 12, 1992), pp. 18-24; Ben Slay, ed., "Roundtable on the Hungarian Economy," *RFL/RL Research Report*, Vol. 1, No. 29 (July 17, 1992), pp. 44-52.
4. Gabor Bakos describes "gradual transition" as a scenario where elements of a free market are gradually created prior to the moment of systemic change, preparing the economy for a smooth passage to a market economy; Bakos, p. 1191.
5. Interview with Mihaly Kupa, *Le Figaro* (Paris), June 4, 1991.
6. Ibid.
7. Evaluation made by Tamas Bauer, summarized in Pataki, "Hungarian Government," p. 20.
8. On the flaws of the process of passing agriculture property into private hands, see Karoly Okolicsanyi, in Slay, ed., "Roundtable," p. 46. Bakos also speaks of the fact that the political prioritizing of land privatization led to the implementation of a program of restitutions that was not correlated with other economic developments, and eventually led to the collapse of the agriculture production system; Bakos, p. 1193.
9. The Hungarian government made strong statements in support of the well-being of Hungarians living outside of Hungary, whom the government considered "Hungarian citizens." The Antall government argued that Hungarian domestic and foreign policies were made for the benefit of all Hungarians, irrespective of their geographic location. These positions sent shock-waves through Romania and Slovakia, who saw themselves threatened in their territorial integrity, and made EU observers raise their eyebrows. *Romania Libera* (Bucharest), March 1990 through November 1992.
10. Adam Torok, director of the Industrial Economics Institute at the Hungarian Academy of Sciences, argued that the Antall government's economic success had been evaluated more as a diplomatic victory in convincing West Europeans that Hungary was ready for integration, rather than as a function of real economic growth

or as indications that a successful transition to a market economy was underway in the country. In Slay, ed., "Roundtable," p. 45.

11. Márton Tardos, "Systemic Change and Economics," *Közgazdasági Szemle* (Budapest, 1993), p. 9.
12. Pataki, "Hungarian Government," pp. 18-9.
13. On February 21, 1992, Jozsef Torgyan, the Chairman of the Presidium of the Smallholders' Party, announced the decision to withdraw from the governing coalition. He was not, however, in agreement with all of his party's representatives within the governing coalition; thirty-five out of forty-five Smallholders' Party representatives remained with the coalition, while Torgyan's faction left the government. Judith Pataki, "Role of Smallholders' Party in Hungary's Coalition Government," *RFL/RL Research Report*, Vol. 1, No. 14 (April 3, 1992), pp. 20-23.
14. *Transition Report 1997*, pp. 173-174.
15. The so-called 'voter apathy' was markedly more pronounced in Hungary than in other East European countries. It manifested itself in substantially lower voter turnout during elections, starting as early as local elections in 1990. Judith Pataki, "Results of the First Round of the Local Elections," *Report on Eastern Europe* (October 19, 1990), pp. 17-20; Judith Pataki, "Hungary: Young Democrats Prepare for 1994 Elections," *RFL/RL Research Report*, Vol. 1, No. 12 (March 20, 1992), pp. 7-11; Judith Pataki, "The Political Lessons of a By-election in Hungary," *RFL/RL Research Report*, Vol. 1, No. 25 (June 19, 1992), pp. 11-15.
16. The resistance to the introduction of banking mechanisms to foster small privatization in the name of protection for the disadvantaged strata of society was signaled by several analysts. Adam, pp. 989-1006, and Slay, ed., "Roundtable," pp. 44-52; also the evaluation of a member of the Antall coalition, Tamas Bauer, member of the AFD's National Council, in Pataki, "Hungarian Government," p. 20.
17. Bakos argues that, in fact, the Hungarian transition should be labeled a "hidden shock therapy." In his view, the transition was not gradual because earlier reforms failed to resolve basic problems, which eventually led to economic problems experienced early in the transition process. Even if the Hungarian economy was more liberalized prior to 1989, it was not ready for the thorough liberalization of imports and exposure of the domestic products to Western competition, nor for the privatization of land that allowed foreigners to acquire large proportions of real estate. In his view, a concerted transition scenario would have been necessary in order to coordinate the effects of policies with their social and economic impact on the economy. Bakos, pp. 1192-94.

18. Hungary macro-economic indicators, *Transition Report 1998*, p. 217. The Report lists the share of industry versus agriculture in GDP at 25/8 for 1991, 23/7 in 1992, 22/6 in 1993, 22/6 in 1994, and 23/7 in 1995.
19. Gallup Survey (September-October 1997), reproduced in "Hungary: Polls: Opinions of 'Winners and Losers,'" *FBIS-EEU-97-329* (November 25, 1997), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>. In 1996, the privatization program adopted by the government in 1995 was described as "wasteful domestic privatization [which] led to a market sellout, [with] close to two thirds of our national property sold below their real value and the funds taken out of the country." A degree of xenophobia surfaced at the time, since there was a belief that "foreigners already obtained considerable amounts of land through illegal contracts and they can hardly wait also to be legal owners in Hungary after the modification of the law. This will then end the full sellout of this country." Interview with Erzsebet Gidai, director of the Social Research and Forecasting Institute in Budapest, "Hungary: Economist Describes Privatization as 'Sellout,'" *FBIS-EEU-96-173* (Sept. 3, 1996).
20. Przeworski, p. 165.
21. As in the Czech case of the voucher privatization scheme, many formerly state-owned enterprises ended up being owned by state-owned banks or other types of state companies, so that the majority of the shares remained in the hands of the state, which had no incentive to restructure or modernize these entities. The result was underperforming economic entities which generated some amount of initial revenue for the government as a result of the "selling" process. Bakos also mentions how former communists acquired state assets by cutting deals with foreigners to establish shareholding companies, thus securing for themselves a new position in the market economy. See Slay, ed., "Roundtable," p. 49; also, Edith Oltay, "Hungary: Political Fragmentation and Economic Recession," *RFL/RL Research Report*, Vol. 3, No. 1 (January 7, 1994), p. 79; Bakos, pp. 1201-1202.
22. "Prime Minister Horn Addresses Parliament," *FBIS-EEU-95-020* (January 30, 1995); "Prime Minister Horn Optimistic about 1997," *FBIS-EEU-96-251* (December 24, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
23. "That such phenomena could occur, people in the post-socialist region were not warned by new parties, leading politicians and new democratic governments. Nor can we find a prognosis for a harsh recession in the first theoretical pieces on the programs of transition." János Kornai, "Transformational Recession," *Közgazdasági Szemle* (Budapest), March 1993.
24. Laszlo Bekesi, "Thoughts about the Hungarian Socialist Party's Political Strategy," *Nepszabadsag* (Budapest), February 4, 1994.

## **CHAPTER VI**

### **ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: POLAND**

#### **INTRODUCTION AND BACKGROUND**

At the outset of political transformation across Eastern Europe, Poland was the country with the most publicized and widely known economic and political crisis across the region. It had the highest external debt among East European countries (\$40 bn), and an economic crisis accompanied by serious social implications. It also had a strong grass-roots movement against communism and towards economic and political transformation that none of the other communist countries in the region had. It was called “Solidarity” and it consisted of trade unions which were demanding political and economic reform.

At the end of the nineties, Poland is the only country in Eastern Europe whose governments resolved to respond to grass-root calls for change by undertaking a shock therapy approach to transition. It also remains the only country in the region that did not lose popular support for the introduction of a market economy, resumed economic growth at a very early stage in the transition period (1992), and is headed in the direction of integration in the European Union at a steady pace.

Poland’s economic crisis started in late seventies, with a combination of large foreign debt, budget deficit, wage pressure, and overextended investments. Trade union strikes and the formation of Solidarity ensued, forcing the government into an open political crisis and a military coup d’état in 1981. Martial law was imposed throughout Poland between December 1981 and July 1983, and all trade union activities were

suspended. Continued worker unrest and violent clashes with security forces during mid-eighties weakened the legitimacy of the communist government and forced Jaruzelski's government to consider reforms. In October, 1987, the government announced plans for economic and political reforms, and it decided to start talks with Solidarity and other social groups.

The last communist government, headed by Mieczyslaw Rakowski (appointed Prime Minister in September 1988), tried to reform the economy, only to see it sink further towards the end of 1988.<sup>1</sup> The main characteristics of the reform program were the abandoning of the central planning system, the enhancement of enterprise autonomy, and a reform of the tax system. The reforms did not bring about the end of economic recession, but created a popular and government attitude that was more prone to change and reform in Poland than in the other East European countries.<sup>2</sup>

By the late eighties, it became clear that the political *status quo* could no longer be maintained in Poland. Lech Walesa, then leader of the Solidarity movement, negotiated an agreement with the communist government of President Wojciech Jaruzelski for broad political and economic pluralism. Free elections were scheduled in July 1989.<sup>3</sup> The Solidarity movement secured all but one of the 100 seats in the Senate, and all 161 seats that it was permitted to contest in the Sejm.

With Jaruzelski's agreement to resign in September 1990 and permit direct presidential elections, the formal demise of the communist system was sealed in Poland. Lech Walesa ran for President and won. Walesa's first nominee for Prime Minister, Jan Olszewski, failed to form a government. He then proceeded to appoint a radical economist for the position of Prime Minister, Jan Bielecki.



The program undertaken by the government headed by Jan Bielecki was the most ambitious and radical among East European countries. Most remarkably, it was backed by public support despite open government acknowledgment that reforms would come at a high social cost.<sup>4</sup> Against the background of hyperinflation, a budget deficit that was more than 8% of GNP, and a noncompetitive economy, the Bielecki government declared that it would “transform the Polish economy into a market economy, with the ownership structure changing in the direction of that found in the advanced industrial economies.”<sup>5</sup>

The Bielecki government started applying a program of economic reforms designed by Leszek Balcerowicz, the first post-communist Finance Minister and artisan of the Polish economic recovery plan. The so-called “Balcerowicz Plan” combined aggressive liberalization measures which resulted in the stabilization of the economy within six months. Reduction of government spending, stabilization of the exchange rate, wage restraints, reduction of government subsidies, and reduction of tariff and non-tariff barriers helped increase domestic competition, led to the convertibility of the zloty, reduced the budget deficit to the 5% limit imposed by international lending institutions, and boosted trade.<sup>6</sup>

These measures were designed to stimulate growth and create an attractive market for foreign investment. Figure 5 showed that positive GDP growth resumed in Poland as early as 1992, and that GDP continued to grow throughout the end of the nineties. Foreign direct investment also grew steadily, reaching \$4 bn in 1998 (per Table 11 below).

Measures to privatize and restructure the Polish economy also helped GDP growth. Legislation introduced in the late eighties allowed state-owned enterprises to transform themselves into joint-stock companies. The distribution of privatization

vouchers, much along the same lines as the Czech vouchers, led to the creation of investment funds and other types of institutional investors in 1990. The “privatization offensive” undertaken by the Minister of Ownership Transformation, Janusz Lewandowski, in 1991 led to the commercialization of some big state-owned enterprises. Privatization through liquidation, small privatization, and “spontaneous” worker privatization also added to the overall outcome of increased share of GDP resulting from the private sector.<sup>7</sup>

Such economic measures led international lending institutions to grant Poland a debt forgiveness of up to 50%. The Paris Club adopted a resolution on March 15, 1991, according to which three-fifths of 50% of the debt Poland was carrying was to be forgiven immediately. The rest of the debt forgiveness was to be granted contingent upon Poland’s coming to an agreement with the IMF to restructure its economy, and its fulfillment of the second IMF accord. Such decisions sent a strong signal throughout the region that if governments were determined to switch to a market economy, the international lending organizations would be willing to help.<sup>8</sup>

Two irreconcilable positions dominated Polish politics throughout the nineties. One advocated a radical approach to reform, which was characterized by austerity measures, allowing the market forces to operate freely, and getting the government out of economics. This was the position fostered by Balcerowicz, Walesa, and the Solidarity Post-Electoral Action (AWS). The second position favored more state intervention into economic decisions, and a more protectionist industrial policy and trade. This is the position fostered by Mazowiecki (first post-communist Prime Minister), the Socialist Party

(SLD), the Peasant's Party (PSL), and the Movement for the Reconstruction of Poland (ROP).

Between these two positions, Poland witnessed a highly unstable political environment in the early nineties, with governments failing to acquire enough parliamentary support to pass legislation, or failing to convince political groups to form majority coalitions. As a result, between 1990 and 1992, Walesa changed the government composition six times, and won himself a reputation of being an "authoritarian" politician. This reputation cost him the presidency when he ran for re-election.

Despite polarization in the early nineties on the pace and depth of reform, the remarkable aspect of the Polish program of economic transformation remains its continuity across the political spectrum. Given the frequent changes in governing coalitions and a fairly tumultuous political life, the Poles maintained the line of the Balcerowicz program in their approach to reform.

Popular disenchantment over the manner of politics and the implementation of reforms led to the voting out of Solidarity, and to a victory of the Socialist Party in the parliamentary elections of 1993. In their electoral campaign, the SLD promised a reversal of the logic of transformation of the previous years, more spending on social programs, and more state intervention in privatization and restructuring decisions. In light of the socialist electoral platform, a return to a state-interventionist strategy was predicted and expected by foreign investors.

With all the rhetoric of change, and the accompanying gloomy forecasts of a slow-down of the reform in Poland,<sup>9</sup> the economic strategy followed by the SLD government was very much along the lines of the Balcerowicz's program. In presenting the program

of the leftist governing coalition to the Sejm, Prime Minister Włodzimierz Cimoszewicz announced the maintenance of a policy line of state financial discipline.<sup>10</sup> Marek Borowski, the first minister of finance under the socialist coalition simply carried out the 1994 budget that had been drafted by his reform-oriented predecessors. Grzegorz Kolodko, the second minister of finance and a severe critic of the Balcerowicz program, continued the language and practice of discipline in public spending, curtailment of budget deficit, and the opening of the Polish markets to foreign investment. Whether due to accords signed with international financial institutions, or to the fact that after four years of liberalization the tide of economic transformation could no longer be reversed, the socialist government chose to continue the program of economic reform that returned growth to Poland.

Overall, unlike other East European countries, Poland managed to stick to its original plan of economic transformation throughout the nineties, to end 1999 with the same finance minister who started the reform, Leszek Balcerowicz. This consistency, with all the deviations and flaws of implementation, won the country the reputation of reliability in the eyes of international institutions, foreign investors, and eventually of its own constituencies. Even when governments were being changed every other month in the early nineties, seemingly on account of insensitive economic policies towards some social layers, from Balcerowicz to Olszewski, Pawlak, Suchocka, and then to the leftist governments of Włodzimierz Cimoszewicz and Kolodko, all Polish governments chose to continue the radical plan of introduction of market economics through a policy of shock therapy.

## TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS

As a result of the economic trends described above, when the EBRD transition indicators started being calculated, the progress of the Polish government towards reform looked promising. Table 10 below summarizes these ratings.

**Table 10.--Poland: Indicators of progress in transition to a market economy**

	1994	1995	1996	1997	1998
Private GDP share	55%	60%	60%	65%	65%
Large scale privatization	3	3	3	3.2	3.2
Small scale privatization	4	4.2	4.2	4.2	4.2
Governance and restructuring	3	3	3	3	3
Price liberalization	3	3	3	3	3.2
Trade system	4	4.2	4.2	4.2	4.2
Competition policy	3	3	3	3	3
Bank reform	3	3	3	3	3.2
Securities reform	n/a	3	3	3.2	3.2
Investment law	n/a	4	4	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

An analysis of Poland's ratings compared to Hungary's and the Czech Republic's reveals that, in many respects, Poland was actually behind the other two countries in the introduction of reform policies.

With fifty-five percent of national wealth coming from the private sector, Poland was on a par with Hungary and behind the Czech Republic in 1993, but behind both in

1997 in the private share of GDP category. This is surprising because economists have long held that the growth of the Polish economy was largely due to its private sector. If this argument applied across all countries, or at least across those countries that are considered front-runners in transition policies, both Hungary and the Czech Republic should have experienced growth about the same time as Poland, if not sooner. On the contrary, both took much longer to experience growth than Poland. Additionally, both ended the period with a higher share of GDP coming from the private sector than Poland (75 and 80 percent to Poland's 65 percent).

A similarly puzzling situation is reflected in the ratings of large-scale privatization. Poland lagged behind the Czech Republic and Hungary, with a mere 25 percent of large-scale enterprises privatized or in the process of being privatized, to the latter's more than 50 percent of state-owned enterprises in private ownership.

In small-scale privatization, all three countries have similar scores, moving from complete privatization of small companies to establishing standards of performance typical of advanced industrial economies.

Why did Poland resume growth so much faster than the other two front-runners if in terms of privatization, it was actually behind them? A comparison of progress in the other transition ratings does not offer a satisfactory explanation for the growth differentials among these three countries, nor does it explain the relative success of the Polish economy over the economies of Hungary and the Czech Republic.

All three countries had similar ratings of promoting corporate governance (3 rating), with Poland and the Czech Republic one year behind Hungary in terms of moving towards actual improvement in corporate governance in 1997. Price liberalization was

substantial for all three, with state-procurement at non-market prices largely phased out. Poland followed Hungary in the implementation of comprehensive price liberalization, with utility prices approaching economic costs in 1997. The Czech Republic remained at a lower level of price liberalization.

With respect to the trade system ratings, all three countries witnessed similar progress by removing import and export restrictions, and all significant export tariffs. All three countries also moved towards standards of performance norms of advanced industrial economies, removed most tariff barriers and became members in the World Trade Organization.

In competition policy, all three countries had the same level of progress, introducing some enforcement actions to reduce abuse of market power and to promote a competitive environment.

In banking reform, Poland followed Hungary starting in 1997, but with more modest achievements in moving towards banking laws and regulations compatible with BIS standards, and effective supervision and substantial financial deepening. With respect to the establishment of bank solvency, full interest rate liberalization, and the start-up of lending to private enterprises, Poland and Hungary were on a par, with the Czech Republic lagging behind.

Both Poland and Hungary reached the same level of progress towards securities reform, moving from the establishment of independent share registries, secure clearance and settlement procedures, towards securities laws and regulations approaching IOSCO standards.

All three front-runners established a clear framework for encouraging investment. No legal discrimination was allowed between domestic and foreign investors.

Overall, Poland's transition ratings taken individually indicate that the government undertook reforms to take the economy on the path of transformation to a market economy. Poland's transition ratings taken comparatively indicate that the country was behind both Hungary and the Czech Republic in the introduction of some reforms. Despite this finding, at no point during the period under discussion was the growth of either Hungary or the Czech Republic equal to or higher than Poland's.

While this appears to be a counterintuitive situation, we need to recall that transition indicators describe stages of reform in individual sectors towards an ideal point, a functioning market economy. They do not gauge the degree to which these indicators contribute towards resumption of growth; nor is there a methodological assumption that if indicators are fairly advanced, growth should automatically follow. There is, however, a methodological caveat regarding the distinction between indicators of development, which gauge the enhancement of the national economy and of the individual standards of living, and indicators of transition.

Additionally, an important element of distinction between the situation of Poland in the beginning of the transition and the situation of the other two countries was their starting point. Poland started its economic transformation with a large external debt, skyrocketing inflation, large unemployment rates, and wage pressure. Elements of private sector industry existed, however, which helped the country in its development of a vibrant private sector after 1989, in services and small, family-run enterprises. The Czech Republic and Hungary started out from low external debt, virtually no official



unemployment, a partially liberalized economy, and some modicum of private enterprise. Their transition ratings reflect their more advanced starting point in the transition. However, the relative slowness of reforms in Hungary (the gradual approach), and the sometimes inconsistent approach to reform in the Czech Republic resulted in more fluctuating trends in these two countries, and less constant economic growth than in Poland.

Additional macro-economic indicators listed in Table 11 below offer a picture of the dynamics of economic growth and other economic indicators that offer insights into the reasons why the Polish economy grew more, faster and a steady pace than the economies of the other two countries.

**Table 11.--Poland: Macro-economic indicators**

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-7.0	2.6	3.8	5.2	7.0	6.1	6.9	5.2
Consumer prices (average)	70.3	43.0	35.3	32.2	27.8	19.9	14.9	11.0
Gross average monthly earnings in manufacturing (annual average, adjusted for inflation) <sup>a</sup>	-6.8	-5.7	0.1	4.3	4.9	7.0	6.6	n/a
	<i>(% of labor force)</i>							
Unemployment	11.8	13.6	16.4	16.0	14.9	13.2	10.5	n/a
	<i>(in billions of U.S. dollars)</i>							
Trade Balance	0.1	0.5	-2.3	-0.8	-1.8	-8.2	-11.3	-14.0
Foreign Direct Investment	0.1	0.3	0.6	0.5	1.1	2.8	3.0	4.0

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 223.

<sup>a</sup> Calculated by author from EBRD data.

Steadiness of trends suggesting a coherent approach to the reform of the economy is the one characteristic of the evolution of Poland's economic indicators that was not noticeable in the economic indicators of the other two countries.

Inflation rates, gross average monthly earnings in manufacturing, and GDP growth maintained a steady course throughout the period, with inflation going down, monthly wages going up, and national wealth going up. Unemployment rates increased in the first part of the transition, a phenomenon to be expected in the conditions of the reorganization of the foundations upon which the economy was built, then stayed on a declining slope through 1998.

These trends concur with earlier positions that Poland maintained a steady approach to the reform of its economy. The approach can also be characterized as being comprehensive, since it resulted in healthy and far-reaching results, ranging from sustained economic growth, individual earnings growth, better purchasing power, and higher employment rates.

It should be noted, however, that throughout this period, Poland's inflation rates were the highest among the front-runner countries. Given its starting point in the transition, this reality should not overshadow the efforts made by the government to maintain a tight fiscal policy. In fact, after lagging behind Hungary and the Czech Republic, Poland finished the period ahead of Hungary, and on a par with the Czech Republic with respect to inflation rates.

Similarly, unemployment rates were much higher in Poland than in the other two countries throughout the period under discussion. In this regard as well, Poland crossed

the finish line on a par with rates of unemployment in Hungary, but with twice as much unemployment as the Czech Republic.

Fluctuating trends can also be observed. The trade balance and the foreign direct investment indicators show less consistency in outcomes of economic policy. The trade balance was in good equilibrium through 1992. Afterwards, the economy experienced the phenomenon of “overheating”, meaning that the economy was consuming more than it was producing. The surplus of imports over exports has been credited to the growth in consumer demand faster than the economy could satisfy the consumer appetite. Moreover, the lower quality of the Polish products over imported products led to more consumption of imported versus domestic goods, a phenomenon that we have observed in the other two countries as well. Some analysts have likened the disproportion between consumer appetite and the economic ability to satisfy it with “living above one’s means,” a phenomenon distantly resembling the consumption patterns of the Gierek era.<sup>11</sup>

#### GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS

How did the outcome of economic policies affect public support for a market economy? Figure 12 below traces the curve of public opinion support for a market economy, the curve of GDP growth per capita, and the curve of unemployment.

Figure 12 shows that public opinion support for a market economy in Poland remained strong throughout the period under discussion, even when the unemployment rates were soaring. Of all the countries under discussion, Poland’s public support never sank below the fifty percent line, a strength that is all the more remarkable given the country’s high unemployment rates.

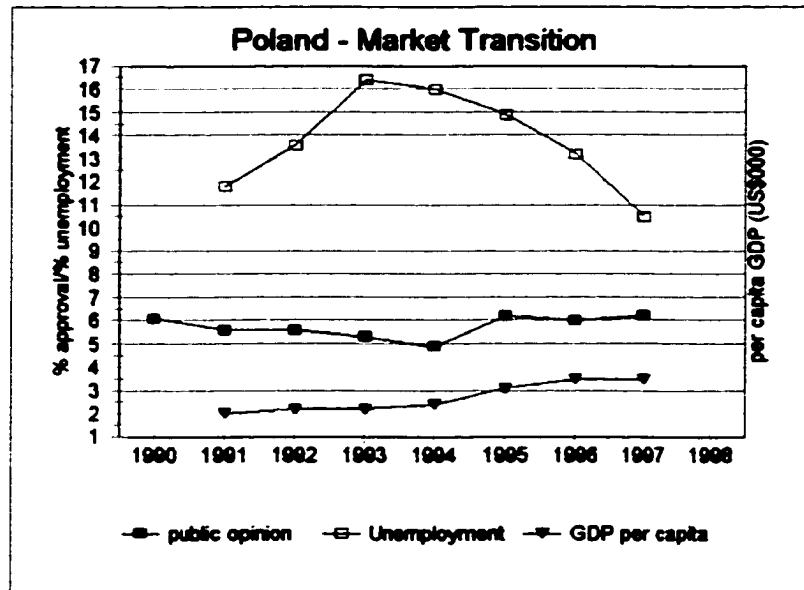


Figure 12. Poland: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 217; *Central and Eastern Eurobarometer*, Nos. 1-7 (Brussels: Commission of the European Community, 1991-1997).

Is there an observable relationship between policy outcomes and public support for the introduction of a market economy? Does that relationship reveal patterns of government responsiveness to their publics?

The public support and economic growth lines in Figure 12 suggest that there is a direct relationship between these variables, with public support pulling the policy line upwards. The trends observable in the Polish case come the closest to the responsive government model described in Chapter 3, Figure 2. Strong public support for a policy led policy to largely follow the direction of public support. The relative distance between the two lines became narrower after an observed time-lag. As policy makers reduced the distance between policy outcomes and public support for those outcomes, they engaged in

responsive behavior characteristic of a representative democracy system. Of the front-runner countries in the race to transition to a market economy, Poland is thus the first country that fits the responsive government model.

Additional data supports the finding that strong public support was present and justified the tough economic policies that were implemented in order to bring about the desired economic system. Figure 13 below shows consistency of the dynamics of public support for a market economy.

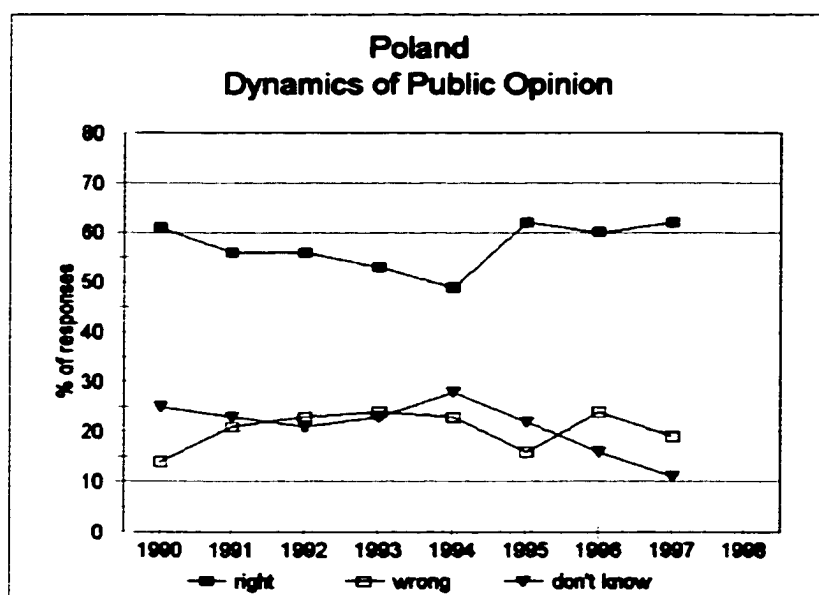


Figure 13. Poland: Dynamics of Public Opinion on Support for the Introduction of a Market Economy

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

As noted, public support for the introduction of a market economy was consistently high in Poland, within ten percentage points below or above the sixty percent threshold. Conversely, the percentage of Poles who did not believe that a market

economy was the right system for their country was consistently low throughout the period. Similarly, the percent of Poles who did not know how to respond to this question was low, and declined steadily after 1994. This suggests that the public was relatively informed about the implications of a market economy, and made an informed choice on the questionnaire. At the height of public uncertainty about the economic direction of the country, after the 1993 elections which brought the socialists to power, over twenty percentage points still separated those who believed that the market economy was the right policy to pursue versus those who did not believe that to be the case.

It remains interesting to point out the differences in policy outcomes and public support across the three countries with respect to the introduction of a market economic system, especially in light of the ratings of transition indicators. These differences help explain why, on occasion, hypotheses explaining the dynamics of public support in Hungary and the Czech Republic do not necessarily apply to Poland.

Poland undertook a shock therapy approach to economic reforms early in the transition, maintained that approach throughout the entire period under discussion, and was the first among these countries to resume economic growth. It also maintained its public support for this approach to reform throughout the period. Despite the resumption of growth, transition ratings place Poland behind Hungary and the Czech Republic with respect to private sector share of GDP, and lagging behind them on a few other indicators (per previous discussions).

Hungary started with a gradual approach to economic reform, did not resume growth for several years, went through a recession and diminishing standards of living, and eventually witnessed substantial decrease of public support for the introduction of a

market economy. Despite the recession, transition indicators place Hungary ahead of Poland on several counts, and largely on the same footing with the Czech Republic.

The Czech Republic started reforms at (what economists consider) a rapid pace, but applied them in an inconsistent fashion. After a short period of growth, the country sank into recession. For economic policies, but more likely for political reasons, the country steadily lost public supporters for a market economy, and for a democracy in general. Transition ratings also place the Czech Republic ahead of Poland on several counts.

While economists offer a variety of reasons to explain the differences in the outcomes of these three economic strategies, a majority agrees that the strongest variable in Poland's favor was the consistency with which the reform program was implemented. Since this is a subject which deserves another volume of attention, we shall return to the issue of the dynamics of public support for the economic programs of the three countries.

A minimum of two hypotheses explaining the difference in the dynamics of public support between Poland, Hungary and the Czech Republic can be found in the literature. The first hypothesis is unrelated to the dynamics of popular support and government policies: the point of departure in the transition, commonly referred to as "the starting point" gets credit for this difference.

Briefly stated, this argument is based on the hypothesis that if the point of departure in the transition to a new economic or political system is relatively weak, meaning that the economy is in bad shape, the political system is not liberalized, and the general situation of the country is generally poor, the public's expectations for a better life within a short time after the transition started are low. Conversely, if the starting point is

relatively good, the economy has witnessed some liberalization measures, and a degree of political freedom exists, the public is more likely to expect wealth and a well-functioning system fast.

Applied to the three countries under discussion, Poland fits the first hypothesis, while Hungary and the Czech Republic fit the latter. Poles started out from a difficult economic situation in 1989. Their level of expectation for a better life was low, and their level of patience to wait until the economic situation got better was high.

In Hungary and the Czech Republic the situation was reversed. The economies of these countries were in fairly good shape at the outset of the transition. When the political change occurred in 1989, Hungarians and Czechs had higher expectations about the future of their personal economic situation. The immediate results of transition policies must have come as a shock to many people, and resulted in disappointment about the emerging system commensurate with the expectations. This disappointment translated into lowered support for the economic and political system believed to have caused the decline of personal and national well-being.

This approach helps explain why Poles had a better sense of endurance of the post-1989 events, while Czech and Hungarians had less endurance which translated in diminished support for both political and economic developments. Table 12 below supports the hypothesis that the level of expectations for a better life of the Polish public was modest. Fewer Poles believed that their personal financial situation would get better during the following twelve months than those who believed that it would stay the same or get worse. Between 1995 and 1996, when the benefits of economic growth started to be felt throughout a larger social stratum, slightly more people believed that their situation



would get better than that it would get worse. The fact that the largest proportion of respondents consistently thought that their situation would not change suggests a degree of modesty about Poles' expectations for the future. Even with these low expectations, Poles continued to support radical reforms, because they believed that reforms would eventually bring abundance for large majorities.

Table 12.--Poland: Public opinion on financial situation in the household

	1990	1991	1992	1993	1994	1995	1996
Will be better	24	17	21	24	15	25	24
Will be same	31	33	30	37	37	39	40
Will be worse	24	32	34	23	30	17	23

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Notes: Figures in percentages. In 1990, the question was, "Over the next 12 months, how will your own financial situation change?" Starting in 1991, the question was "Over the next 12 months, do you expect the financial situation of your household will get a lot better, get a little better, stay the same, get a little worse, or get a lot worse?" The 'get a lot better' and 'get a little better' categories were cumulated. The 'get a little worse' and 'get a lot worse' categories were cumulated. Starting in 1997, the question was dropped from questionnaires.

A second hypothesis explaining the relative differences between the three countries is relevant from the point of view of the dynamics of public support for the particular policy. The level of public knowledge about the implications of the upcoming transition is considered a major discriminator between the levels of public support for reform in these three countries.

Comparatively, Poles were much better informed about the difficulties of the transition period than were either the Hungarians or the Czechs. The Polish government

repeatedly pointed out to the population that the reforms would be hard, that bad and worse times would come before better times could come, and that bad times were a sign that good times were ahead. The government also admitted that unemployment, loss of purchasing power, and fewer and weaker social programs were going to be inherent in the transition before the country could experience growth from which a majority would benefit. Figure 13 also supports the hypothesis that the Polish public was knowledgeable about the implications of a market economy, with rates of people who did not know whether a market economy was good for their country of under thirty percent, and going steadily down after 1994, to reach ten percent in 1997.

Hungarians, on the other hand, expected a milder impact of reform policies, especially in light of the political rhetoric surrounding the choice of the gradualist approach. They were unprepared for the high rates of unemployment that soared once reforms started to be implemented, and were largely uninformed about the costs of transition and the consequences of reforms on the general population. Figure 10 showed sustained high rates of undecided people on the question of market reform, with rates going steadily up between 1991 and 1997.

The level of public knowledge about the implications of the upcoming transition also helps explain why hypotheses for the dynamics of public support for the introduction of a market economy in Hungary and the Czech Republic do not apply to Poland.

In Hungary's case, the decline in public support for a market economy was credited to the hardships of transition, such as high and unexpected unemployment rates. These accompanying liabilities raised the Hungarians' insecurity about their personal situation and undermined support for a market economy.

In Poland, however, the rate of unemployment was also high, even more so than in Hungary, while public support for the introduction of a market economy was maintained, even during the times of the highest unemployment rates in 1993. This has only been explained as a result of the fact that Poles knew that unemployment would go up and were not surprised when it did, even if they did not enjoy it.

One final point merits attention in the discussion of dynamics of popular support and government policies. As the next section will show, despite sustained public approval of a market economy and of democracy, the Polish public also used the polls to vote incumbents out. A legitimate question imposes itself: if the Polish public approved of the economic policies of the government, why were incumbents voted out? In other words, if the government was responsive to their publics by introducing an economic system desired by wide majorities, why did the government get a no-confidence vote? As we shall see, popular approval of post-1989 politics was as important in Poland as we noted in the Czech Republic and Hungary. To this final analysis we now turn.

#### GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT

That popular disillusionment with politics existed in Poland as well is plainly illustrated by the voter "punishment" of incumbents for their performance in all three elections held between 1991 and 1997. Table 13 below lists election results in parliamentary elections for 1991, 1993, and 1997.

Table 13.--Polish parliamentary election results (1991-97)

Party	1991		1993		1997	
	% of vote	seats	% of vote	seats	% of vote	seats
Solidarity		11				
Democratic Left Alliance (SLD)		60	20.4	208		192
Solidarity Electoral Action (AWS)						252
Freedom Union						68
Peasant Party (PSL)			15.4	168		30
Movement for Reconstruction						11
Democratic Union (UD)	13	83	10.6	78		
Union of Labor (UP)			7.3	43		
Confederation for an Independent Poland (KPN)			5.8	22		
Non-Party Bloc in Support of Reforms (BBWR)			5.4	18		

Data from Adrian Karatnycky, Alexander Motyl, and Charles Graybow, *Nations in Transit 1998: Civil Society, Democracy and Markets in East Central Europe and the Newly Independent States* (Freedom House: 1998), p. 441.

Note: For 1993, seats in the Sejm and in the Senate are cumulated; percentages are for Sejm only. Union of Labor (UP) is a party established in 1992, and composed of Solidarity of Labor (SP), Social-Democratic Movement (RDS), and Wielkopolska. For 1997, seats in the Sejm and in the Senate are cumulated.

The most notable rejection of an incumbent party occurred in 1991, when Solidarity was one of 28 other parties who gained minimal representation in the parliament. After the resounding success that Solidarity had in the July 1989 negotiated elections, when they won all but one of the seats that could be contested, the results of the 1991 elections were desultory and posed a great question mark regarding its causes.

The two years that passed between the 1989 and the 1991 elections weakened Solidarity. As in many other cases in the region, the group's unity disappeared as soon as the common enemy, the communist party, was removed from politics. Solidarity members

started disagreeing among themselves, and with their leader Lech Walesa, on a wide variety of issues, from political appointments to economic policy-making. Some Solidarity members wanted to see their organization withdraw from politics and return to a focus on workers' issues. Others advocated the creation of a political wing of the trade unions that would enjoy union support. Some members advocated a more state-interventionist approach to economic reform, while others, including Lech Walesa, insisted on fast and radical reform. Many of these factions eventually transformed themselves into parties or organizations, further splitting Solidarity's chances for wide public support.

The poor showing of the Solidarity group in the 1991 elections was due as much to internal political infighting as to the overall state of divisiveness in Polish politics at the time. The resulting popular tiredness with the bickering of the emerging political system translated into a rejection of the incumbent party.

The fact that the Democratic Union of Tadeusz Mazowiecki won the largest share of the popular vote in 1991 (a lackluster thirteen percent of the popular vote) suggests a vague popular endorsement of a more cautious approach to economic reform.

It is interesting to note the manner in which the electorate seemed to swing between Mazowiecki and Walesa during the first years of transition. Mazowiecki came into conflict with Walesa many times on the pace and radicalism of reforms. Walesa's more radical approach seemed to be the one that the electorate preferred, when he was popularly elected for President in 1990. The fact that Mazowiecki did not even come in second in the first round of the 1990 presidential elections was a blow to him and his supporters. Only a year later, voters chose to give Mazowiecki's party one more chance to form a government that would approach reform in a different, more moderate manner.

During the parliamentary elections of 1991, his party won 83 seats, to Solidarity's 11 seats in the Sejm.

That chance did not materialize in a different approach to reform, nor did it lead to a less fragmented political environment. On the contrary, during the two years in which the Democratic Union was the major governing partner, many coalitions were attempted, three Prime Ministers were changed, and little agreement was forged on a variety of political and economic issues. Eventually, Walesa chose to dissolve the parliament and call early elections.

The sweeping victory of the Socialist Party in the 1993 elections again seemed to suggest popular endorsement for a more moderate approach to economic reform, the one advocated by the SLD during their election campaign. However, at no time did the SLD renounce the principle of a market economy. They did announce that they would try to be more sensitive to all the social layers affected by the transition, even if they had to modify previously agreed-to deals, such as Poland's agreements with the IMF.

As noted in previous sections, the fact that the Socialists did not actually reverse the economic policy of their liberal predecessors amounted to continued economic growth, and resulted in continued support for a market economy.

The Socialist victory in 1993 seems to have also been more a rejection of post-communist politics and a sign of favoring parties that acted and behaved in a more civil manner than a rejection of the specific program of transformation of the coalition. The years of constant political contestation, party infighting, disagreement among members of the ruling coalition, and among members of one and the same party paid off. Analysts pointed out at the time of the 1993 electoral campaign that the SLD impressed voters with

their public image. The party pitched an image of unity and decency in politics, and a clear vision of where they wanted to take the country against the endless infighting of the incumbent parties. That image, together with promises for a more sensitive approach to reform for the disadvantaged social layers turned them into a better political alternative to the on-going political struggles that the public witnessed until 1993.<sup>12</sup>

The 1997 elections seemed another instance of “punishing” incumbents, but it was less clear what they were punished for this time. The Socialists no longer won a majority of the popular vote, leaving room for the Solidarity Electoral Action (AWS), the political wing of Solidarity, to form a government. AWS won a majority of votes and entered into a majority coalition with another liberal oriented party, Balcerowicz’s Freedom Union.

On careful consideration, the Socialists were not really voted out of office. In 1997, they won sixteen seats less than in 1993. A loss of sixteen seats for four years of government is not a significant enough loss to indicate a popular vote of non-confidence for any party.

Not the same can be said about the SLD’s major coalition partner, the PSL, who won five times less seats in 1997 than in 1993 (30 to 168). This loss of 138 seats suggests strong voter rejection of the extreme attitude and proposed policies of this party. In effect, if the PSL were less radical in its interventionist agenda, they might have won a few additional seats which would have enabled them to form a new SLD-PSL coalition government.

The 1997 vote suggests that the number of Polish voters who supported the SLD’s left-oriented approach to politics and reform stayed roughly the same between 1993 and 1997. The explanation for the loss of a majority in 1997 is not necessarily voter rejection.

The explanation for the general election result must lie elsewhere.

Two observations regarding the Polish political life are helpful in understanding voter behavior. On the one hand, it has been repeatedly pointed out that there is little substantive difference among the platforms of parties who advocate market reform and the introduction of a market economy (the so-called right-wing forces).<sup>13</sup> There is also little political agreement on creating a unified political force to represent that point of view in elections. As a result, voters had difficulty understanding who it was preferable to vote for, what the differences among political platforms were, and who would best represent voter interests. The 1991 elections exemplified this public disarray, with twenty-eight small, and therefore weak, political parties voted in the parliament.

Secondly, due to the fragmentation of the right-wing forces, the left did not really have a serious challenger until 1997. On numerous occasions, and particularly around the 1993 elections, analysts pointed out that the weakness of the right-wing forces in Polish politics have thrown voters in the arms of the Socialist Party. At some point, the right wing forces must have heard those criticisms. Between the 1993 and the 1997 elections, five small right-wing parties united under the umbrella of the Solidarity Electoral Action and ran on a unified platform. At the time that this platform was adopted and signed, the big surprise was not the existence or the contents of the platform, but the fact that all the parties involved in the AWS agreed to it and signed it.<sup>14</sup>

These observations entitle us to hypothesize that voter behavior was highly dependent on public satisfaction with post-1989 politics. Figure 14 below shows that Polish public satisfaction with democracy was lower than satisfaction with the introduction of a market economy, although at the end of the period, the two lines come nicely to meet



each other between the fifty to sixty percent approval rates. It is also worth noting that the two lines have an interesting parallelism about them, with the market economy line (again) pulling the democracy approval line upwards. Both lines see their lowest point in the same year, 1994, the first year after the take-over by the socialist government.



Figure 14. Poland: Public Support for a Market Economy and Satisfaction with Democracy

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

That public disappointment with post-communist politics was present in Poland as well is illustrated by the figures we used above. The important element of Polish politics remains, however, the fact that in spite of public disappointments, support for the introduction of reforms never faltered. It also did not lead to such undermining of both the notion of a market economy and of democracy *per se* as we have noted in the case of Hungary and the Czech Republic. The fact that the Polish economy performed so much

better than the economies of the other two countries remains the main distinguishing factor that explains the maintenance of public support for the system, but not necessarily for the people implementing it.

## CONCLUSIONS

Poland is the first Eastern European country in which the government behaved in a responsive manner towards its publics, in a manner suggesting that the political system is moving towards a representative democracy. Strong public support for the introduction of a market economy pushed the government into sustaining a radical and effective program of reform which returned growth to Poland. Throughout this process, the Polish public did not lose confidence in the principles of a market economy, even when reforms came at high social prices. Nor did they lose confidence in democratic principles, even though disappointment with post-communist politics was reflected in a low approval rating for the manner in which democracy was performing in their country.

Disappointment with post-communist politics led the public to vote incumbents out of office on a few occasions. That disappointment did not amount to turning the public against the policies of the government in power is illustrated by the sustained support for market economic policies, even on the eve of the 1993 elections, when voters rejected Solidarity and every party that was associated with it in favor of a socialist government. That disillusionment did not amount to turning the public against democracy is illustrated by the parallelism of public support for a market economy and support for democracy in general.

## NOTES TO CHAPTER VI

1. David Lipton and Jeffrey Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," *Brookings Papers on Economic Activity*, pp. 75-145.
2. For a good summary of Poland's economic and political crises of the eighties, see Preworski, pp. 134-137.
3. Walesa negotiated the restoration of the legal status of Solidarity and provisions for the first free elections in June 1989. The agreement provided for open contestation of 35% of the lower chamber seats (the Sejm), with the Communists assigned to have 38% of the seats, and the remaining seats to go to parties formerly aligned with the Communist Party. Solidarity was allowed to contest all the seats in a new upper chamber, the Senate, which would have limited veto power over the lower chamber. The Communists, however, did not get the necessary 50% threshold of public support, per agreement, causing them great embarrassment.
4. Preworski thinks that the large public support for the introduction of a market economy despite the evident and continued worsening of personal economic situations was due to the successful public campaign that the government organized to convince voters of the upcoming benefits of the system. Poles became convinced that their situation could not get better before getting worse, so they put up with reforms and their deleterious effects in the expectation of future rewards. As a result, even when things were getting really difficult, Poles were convinced that the economy was going in the right direction. Preworski, pp. 158-161.
5. "IMF."
6. Ben Slay, "Poland: The Rise and Fall of the Balcerowicz Plan," *RFL/RL Research Report*, Vol. 1, No. 5 (January 31, 1992), pp. 40-47.
7. For a good summary, see Ben Slay, "Poland: An Overview," *RFL/RL Research Report*, Vol. 1, No.17 (April 24, 1992), pp. 15-21.
8. Wojciech Bienkowski, "Can Poland Deviate from IMF Requirements?" *RFL/RL Research Report*, Vol. 1, No. 31 (July 31, 1992), pp. 49-53.
9. The Polish representative to the European Bank for Reconstruction and Development resigned, declaring that he did not want to lend his reputation to "a government of economic disaster," while Adam Michnik predicted the socialist government's defeat in reversing the economic logic of the previous four years of transformation. See "Economy under SLD-PSL Rule Analyzed," *FBIS-EEU-97-189* (September 6, 1997), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.

10. "Prime Minister Cimoszewicz's Address to Sejm," *FBIS-EEU-96-032* (February 14, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
11. "Economy under SLD-PSL."
12. Krzysztof Jasiewicz, "Poland," *European Journal of Political Research*, Vol. 26 (1994), pp. 397-408.
13. "Poland: Polish Political Parties' Goals 'Similar in General,'" *FBIS-EEU-97-261* (September 18, 1997), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
14. "Poland: Columnist Criticizes 'Solidarity' Electoral Action Program," *FBIS-EEU-97-160* (June 9, 1997).

## CHAPTER VII

### ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: THE SLOVAK REPUBLIC

#### INTRODUCTION AND BACKGROUND

The Slovak Republic is the only front-runner East European country in this study which witnessed continued economic growth during transition, while reverting to more centralized and state regulated policies. In fact, the Slovak Republic (hereafter Slovakia) is the only front-runner country to experience growth accompanied by a regression of the transition process. Despite economic growth compatible with the other front-runner countries, at the end of six years of transition Slovakia was not on the list of countries invited to start EU accession talks, and not a new NATO member like her neighbors, the Czech Republic, Hungary and Poland. These consequences, coming at the end of six years of government policies oriented towards state intervention in economic and political developments prompted the electorate to vote out of office the political group which fostered these policies: The Movement for a Democratic Slovakia, headed by Vladimír Mečiar.

Political developments after the September 1998 national elections, which brought an end to the Mečiar government, marked a turning point in the country's official orientation. Between 1999 and the year 2000, the country pursued an aggressive policy of Euro-Atlantic integration, determined to catch up with the Czech Republic and the other East European countries who had already been invited to start EU accession talks. The

beginning of the year 2000 found Slovakia starting EU accession talks, and struggling to restore domestic and international credibility.

While the West European countries and the United States embraced the political changes in Slovakia and promised to assist the country in its efforts to integrate into the larger family of democratic states, it is becoming increasingly clear that the six years of Mečiar rule have affected the country in deeper and more substantial ways than anticipated. Economic growth and social benefits have been maintained artificially high, in a manner reminiscent of the state-controlled approach, and the country is only starting to understand that the introduction of a market economy entails preliminary austerity measures that some social layers are not prepared to support.<sup>1</sup> This may undermine the efforts of the current government and propel Mečiar into power again.

In the beginning of the transition to a market economy and a democratic political system, Slovakia had, like the Czech Republic, a double duty to accomplish: to establish its statehood and to complete the political and economic transition. While Slovakia did not inherit established state and government structures like the Czech Republic, the mechanisms of a market economy had already been activated during the three years in which the republics were in a federation (1990-1992). As a result, the economic health of the country improved each year between 1990 and 1995, although positive growth was only witnessed after the separation of the two republics (see Figure 5).

Politically, however, the two republics stood apart. Slovakia did not have a Václav Havel to guide her with his personality and gain domestic and international credibility. Worse still, Slovakia had fewer former dissidents to lend it credibility and popularity within international circles. Instead, Slovakia had Vladimír Mečiar and his

“Movement for a Democratic Slovakia,” (hereafter HZDS) whose influence on the country’s development negatively marked most of the period under analysis. Even after the voting out of Mečiar after the 1998 parliamentary elections, he seems to have remained a serious concern to those who are attempting to build democracy in Slovakia.

While the story of Slovakia between 1993, when the country came into existence, and 1998 is not solely about Mečiar’s politics, his influence on the political, economic and social life of the new state should not be underestimated. Unfortunately, that influence has been likened to the politics and methods of the former communist regime, characterized by increasingly centralized and one-sided decisions that impacted on the economic and social life, restrictions of freedom of speech and association, and attempts to discredit or eliminate any political alternative that did not bow to the will of the central government.

Mečiar’s influence on the socio-political background of Slovakia goes back to 1989 when, together with the Civic Movement, Mečiar’s “Public Against Violence” had a joint influence on the collapse of communism in Czechoslovakia. After winning the battle over the communist government, Public Against Violence set out to advocate an even higher, and more identity-driven goal: independence for Slovakia. Mečiar was an outspoken advocate of full autonomy for the Slovak Republic from Czechoslovakia, and even got himself fired in early 1991 for his strident calls for autonomy.<sup>2</sup>

The process of disintegration of the Czech and Slovak Republics had, in many observers’ view, more to do with politically charged and populist campaigns from Mečiar and his political group, than with a real need or overwhelming popular choice for a separation of the two republics. It is not clear that without Mečiar’s public campaign the Federal Republic of Czechoslovakia would have split. It remains clear that the drive for

separation came from within Slovakia, specifically from Mečiar's group.<sup>3</sup>

After the July 1992 declaration of Slovakia's sovereignty by the Slovak National Council, political developments merely sped up the separation of the Federation. The Czech Republic displayed no other resistance against the declaration of sovereignty than President Havel's resignation from his position of President of the Czechoslovak Federation. Within two months of the declaration of sovereignty, Czech Prime Minister Klaus negotiated the terms of the dissolution of the Federation with Mečiar, at the time the Prime Minister of the Slovak Republic. By September, 1992, Slovakia adopted a new Constitution, and in November, at the third attempt and by a margin of three votes, the Federal Assembly approved legislation to permit the constitutional dissolution of the Federation. On January 1, 1993, the Slovak Republic came into being.<sup>4</sup>

Up to that point, Mečiar's influence on the fate of Slovakia was, arguably, beneficial. His popular campaign and personal charisma, his appeal to a higher sense of national pride and identity rallied a large enough number of Slovaks around his political movement and national ambitions.

As soon as the national identity was established, however, the tone of politics changed, with an increasing emphasis on personality, centralization of decision-making processes, and caution regarding Euro-Atlantic integration. Starting in 1993, Mečiar's critics, even from within his own party, got fired from executive positions and, one by one, established their own political groups. As a result of firings, and of further deflections from the HzDS in protest against Mečiar's autocratic politics, the HzDS lost the majority in the legislature in the fall of 1993, and was forced into an alliance with another extreme-right nationalist party, the Slovak National Party. Resignations and deflections continued



into 1994, and in March, the National Council (the Slovak legislative body) passed a vote of “no confidence” in the HzDS government.

For the following six months, a new coalition government was sworn in, with former Mečiar supporter turned political enemy, Joseph Moravčík as Prime Minister. This government was to act in an interim capacity, until the September elections to the National Council. The Moravčík administration used its six months in office to adopt a policy of closer integration with West European states, to improve relations with Hungary, and to revitalize the program of privatization previously slowed down by Mečiar. This policy line stood in contrast to Mečiar’s orientation towards Russia, and his ‘going slow on privatization’ line. It also ran counter against his policy of slowing down the emancipation of minorities, exemplified by his lack of support for the language law which was subsequently voted down, and the failure to negotiate common grounds on the treaty of neighborhood

Despite these developments, HzDS emerged the winner of the September 1994 elections. Its return to power was followed by a period of increased state control over the pace and manner of privatization, and of the development of a market economy.<sup>5</sup> Prime Minister Mečiar annulled all decisions on privatization made by the Moravčík administration in late 1994. In 1995, he prompted and supported a law relating to state interest in “strategic” companies, which would not be privatized.<sup>6</sup> Banks were added to this so-called “negative” list in 1996, together with 45 other companies in which the state intended to maintain a “golden” share. Further involvement in the development of the market economy occurred in 1997, when a law on the “Revitalization of Enterprises” was passed, which identified enterprises eligible for state aid in the form of tax deferrals and

debt forgiveness. This law induced over 1,000 enterprises to apply for state aid, weakening market discipline and prolonging false expectations about the manner in which a market economy functions.<sup>7</sup>

The period after Mečiar's return to power in 1994 was also marked by increased political instability.<sup>8</sup> The growing enmity between Mečiar and the President of the country, Michal Kováč, culminated with a vote of "no confidence" in the President in 1995. In the same year, the abduction of one of Kováč's sons to Austria, and his subsequent detention on charges of international embezzlement led to several months of political polarization and increased instability. Additionally, in 1996 and 1997, the HzDS-dominated government introduced several bills that were aimed at limiting civic freedoms. These bills sparked domestic and international protests regarding Slovakia's lack of development towards democracy.<sup>9</sup> The evident hold of the HzDS dominated government over the electronic media, particularly the state television, accelerated public unrest and dissatisfaction with Mečiar's manner of governance.<sup>10</sup>

The final straw in the autocratic handling of politics during the last years of Mečiar government was the holding of a national referendum on Slovakia's membership into NATO and on direct presidential elections. The question on NATO membership was proposed by Mečiar's HzDS. The question on direct presidential elections was proposed by President Kováč.<sup>11</sup> The referendum was spoiled by then Minister of the Interior, Gustáv Krajčí who, acting on Mečiar's orders, excluded from the ballot the question on direct presidential elections. President Kováč called on the population not to vote unless their ballots included the question on direct presidential elections. The referendum was consequently boycotted, with less than ten percent turn-out. The Constitutional Court

ruled that the turn-out was too low and the referendum was declared invalid.<sup>12</sup>

The failed referendum was considered by many domestic and foreign analysts as the highest manifestation of undemocratic practices in Slovakia after 1993.<sup>13</sup>

Domestically, civic demonstrations against the government continued. Opposition parties started preparing for a major coalition to run united in the 1998 elections. Despite the introduction of last minute amendments to the election law intended to stifle the chances of political coalitions to win representation, the Slovak Democratic Coalition (SDK) was formed of five smaller parties. They garnered a majority of the popular vote in the September 1998 parliamentary elections.

The parliamentary victory of SDK, together with the mid-January 1999 constitutional amendment to provide for direct presidential elections sealed the end of the Mečiar rule. Mečiar ran for president, and lost to Rudolf Schuster, the Chairman of the Party for Civic Understanding, a new party on the political scene. Both Western European countries and the United States saluted the change of administration and welcomed Slovakia's entrance into a new stage of political and economic development.

#### TRANSITION BEGINS: GOVERNMENT ACTION TO MEET POPULAR DEMANDS

The above summary highlights the political and economic developments in Slovakia between 1993 and 1998. Against the background of these developments, government action to meet popular demands for the introduction of a market economy appears substantial, per *Transition Report* indicators in Table 14 below. These indicators also indicate that Slovakia is the East European country in which we observe the largest number of reversed trends of transition indicators, particularly starting in 1997.

Table 14.--Slovak Republic: Indicators of progress in transition to a market economy

	1994	1995	1996	1997	1998
Private GDP share	55%	60%	70%	75%	75%
Large scale privatization	3	3	3	4	4
Small scale privatization	4	4.2	4.2	4.2	4.2
Governance and restructuring	3	3	3	2.8	2.8
Price liberalization	3	3	3	3	3
Trade system	4	4.2	4.2	4	4.2
Competition policy	3	3	3	3	3
Bank reform	3	3	3	2.8	2.8
Securities reform	n/a	3	3	2.8	2.8
Investment law	n/a	3	3	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

From the standpoint of privatization, despite political disagreements over the pace, depth and intensity of the process of privatization, Slovakia fared well and very well, especially if we consider transition progress comparatively. In the private share of GDP category, Slovakia started 1994 on an equal footing with two of the three front-runner countries, and ended the period in third place. In 1994, the country had 55 percent of GDP coming from the private sector just as Hungary and Poland, and was slightly behind the Czech Republic (with 65 percent of private GDP). By the end of the period, Slovakia had caught up with the Czech Republic (with 75 percent of GDP from the private sector), ran ahead of Poland (who had 65 percent of GDP from the private sector), and was slightly behind Hungary (which had 80 percent of GDP coming from the private sector).

By the beginning of the year 2000, it was estimated that an approximate 85 percent of GDP was coming from the private sector.<sup>14</sup>

The problem with Slovakia's privatization seems to have been less the pace but the manner in which the process was accomplished. The state's involvement in which enterprises were privatized and which were sold was evident since the 1995 law of essential enterprises. That law allowed the government to have a veto power in the privatization of over 30 large state enterprises irrespective of its number of shares. The inclusion of banks on the list of essential companies in 1996 made the banking sector even weaker and non-competitive. The 1997 law on the Revitalization of Enterprises inhibited attempts at restructuring and modernization, since the state basically promised and bailed out non-competitive loans. Since the banks were under government control as well, loans to non-performing economic entities continued, weakening both the banking and the industrial sectors.

Another problem with the mechanics of privatization was the lack of transparency and fairness of various privatizations. The manner in which some famous privatizations took place have drawn the attention of the EU. In documentation assessing the readiness of countries aspiring to EU membership, Slovakia was criticized for its non-market-based mechanisms of price formation and resource allocation. Examples of these practices were "the continued use of non-competitive and secretive sales in the privatization process, the refusal to sell a number of State-owned enterprises that would benefit from privatization, and the political involvement in the enterprise restructuring process through the Enterprise Revitalization Act." The "repeated use of protective administrative measures" by the

government was deemed incompatible with EU policies, and the existence of a functioning market economy in Slovakia was questioned.<sup>15</sup>

With respect to large scale privatization, Slovakia started the period on par with Hungary and Poland, with a “3” rating indicating that more than 25 percent of large-scale enterprises were in private hands, or getting ready to be privatized. By mid-1998, however, Slovakia had caught up with the Czech Republic and Hungary, with a rating of “4” indicating that the percentage of large-scale enterprises privatized or in the process of privatization had risen to 50 percent, and left Poland behind. As pointed out previously, among the 50 percent left out of the privatization process, there was a large number of State-owned enterprises which could have benefitted from privatization and created needed revenue for the government.

All four countries ran the same scores in the small scale privatization category (between a rating of “4” in 1994, to ratings of “4.2” thereafter) during the entire period, indicating that standards of performance typical of advanced industrial economies had been attained, and that there remained no state ownership of small enterprises.

The above indicators of privatization suggest continued growth of the private sector. This is somewhat ironic given the fact that the privatization policy in Slovakia had been reversed or stalled many times during this period.

Starting with the indicators of governance restructuring, markets and trade, and financial institutions reform, we notice the phenomenon of reversal of policies mentioned in the beginning of this analysis, particularly starting in 1997.

In governance and restructuring, while all the other front-runners stayed the course of undertaking sustained actions to promote effective corporate governance, with a “3”

rating for the entire period, Slovakia went from sustained actions to promote effective corporate governance (developed by 1994), to a weakening of legislative enforcement and to introducing measures that restricted competition ("2.8" rating starting in 1997).

Fluctuations in trade and foreign exchange policies can also be observed, with Slovakia being compatible with all the other front-runner countries until 1997 (rating of "4" in 1994, and of "4.2" thereafter), when it went briefly back to a lower rating ("4"). The brief, one year reversal of policies, from attaining standards of performance norms of advanced economies to re-introducing some tariff barriers reinforces the observation that 1997 was the year of evident negative change in the policies of the government.

In the area of financial institutions reform, the reversal of policies is even more evident, with Slovakia being compatible with the other three countries with respect to bank and securities reform until 1996 ("3" rating indicates substantial progress in the establishment of bank solvency, interest rates liberalization, and the establishment of lending mechanisms for the private sector; and substantial issuance of securities by private enterprises). Beginning in 1997, Slovakia went back to a lower rating in both categories ("2.8"), indicating a more limited use of directed credit, and a renunciation of important aspects of the regulatory framework for the issuance of securities.

With respect to price liberalization and competition policies, Slovakia was compatible with the other front-runner countries ("3" rating), slightly behind Hungary and Poland regarding price liberalization.

Overall, the assessment of the European Union in 1998 was that "a sufficiently convincing track record of consistent economic reforms is missing" in Slovakia.<sup>16</sup> The

absence of reform consistency is also reflected in the macro-economic indicators in Table 15 below.

Table 15.--Slovak Republic: Macro-economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-14.6	-6.5	-3.7	4.9	6.9	6.6	6.5	5.0
Consumer prices (average)	61.2	10.1	23.2	13.4	9.9	5.8	6.1	7.5
Gross average monthly earnings in manufacturing (annual average, adjusted for inflation) <sup>a</sup>	-44.9	6.3	-0.8	4.9	6.0	8.9	5.8	n/a
	<i>(% of labor force)</i>							
Unemployment	n/a	n/a	12.2	13.7	13.1	11.1	11.6	n/a
	<i>(in billions of U.S. dollars)</i>							
Trade Balance	n/a	n/a	-0.93	0.06	-0.23	-2.29	-1.47	-2.12
Foreign Direct Investment	0.08	0.10	0.11	0.24	0.19	0.20	0.05	0.22

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 226.

<sup>a</sup> Calculated by author from EBRD data.

While economic growth was constant until 1995, with positive growth registered for the first time in 1994, growth slowed down and witnessed a dip in 1998. Analysts have long maintained that economic growth was artificially stimulated with bank credits to non-performing enterprises, foreign borrowing and high levels of public investment. The growth slow-down is attributed to the stalling of privatization and the increasing government interference in the process of privatization starting in 1995, and to the unsustainable fiscal and external deficits. The trade balance remained negative throughout the entire period under discussion, and jumped to -2.29 in 1996.<sup>17</sup>



Inflation rates also fluctuated throughout the period, although these rates are low comparable to other countries in the region. The lower inflation rates were attributed to high domestic demand (especially in light of increasing monthly earnings which allowed for increased consumption), to adjustments of administered prices, to indirect tax increases, and to the introduction of import surcharges.<sup>18</sup> Unemployment rates stabilized around 11 percent after 1996. These rates are compatible with Hungary's rates, and lower than Poland's for most of the period.

Table 15 also displays encouraging signs of macro-economic indicators such as the average monthly earnings in manufacturing, the low inflation and relatively low unemployment. However, these positive macro-economic signs seem to have been artificially stimulated by governmental measures, per post-Mečiar economic analyses of the state of the economy.

The only indicator in Table 15 that hints at the fact that macro-economic indicators were artificially stimulated, and that there was not much depth to the government economic policy is the rate of foreign direct investment. According to Table 15, foreign investment was barely present in Slovakia, especially by comparison to the other front-runners. Slovakia seems to have been unable to convince foreign investors of the attractiveness of its economy and services, given the government interference in the economy and the regression of transition. The rate of foreign direct investment is the lowest in Slovakia among the front-runner countries, and indicates caution and superficial investment in the economy.<sup>19</sup>

## GOVERNMENT POLICY AND POPULAR SUPPORT: ANALYSIS

How did the electorate react to government policies, and what type of relationship can be observed between policy outcomes and public support for the introduction of a market economy? Figure 15 below traces the public opinion support for the introduction of a market economy line, the GDP per capita line, and the rate of unemployment line. As in the three previous cases, the GDP per capita line has an ascending direction. Like the Czech Republic and Hungary, the curve of public opinion support for the introduction of a market economy has a descending direction, although the lowering of support is not nearly as dramatic as in the other two cases. The rate of unemployment is higher than that of the Czech Republic, but lower than those of Poland or Hungary.

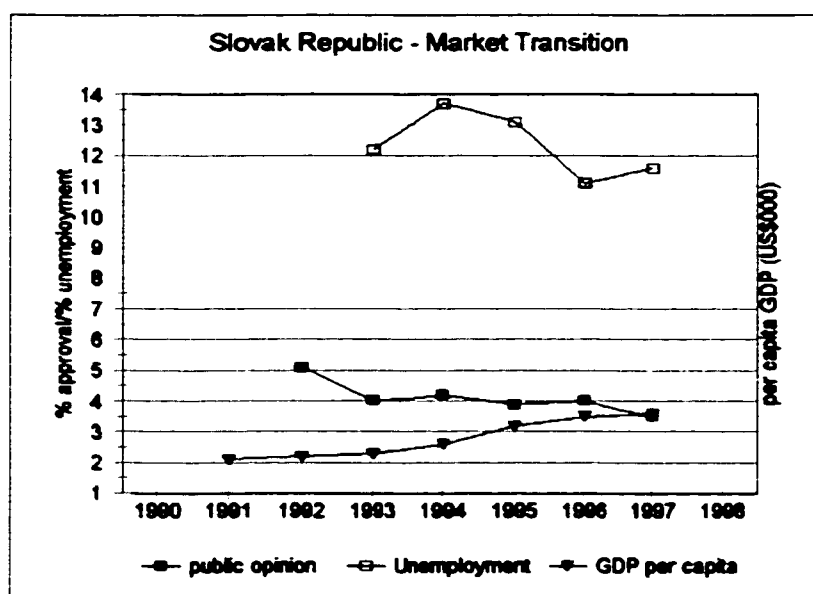


Figure 15. Slovak Republic: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 226; *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

At first sight, the case of Slovakia resembles that of Hungary. Unemployment is high, which contributes to a lowering of support for the introduction of a market economy. As beneficial outcomes of policies, such as increased GDP per capita take time to mature, the population gets weary of transition costs and dwindles in its original support for a market economy. By the time economic growth trickles down to social layers, the population is no longer as supportive of a market economy as in the beginning of the transition, or is less convinced of its appropriateness for the country. As the policy line goes up, the popular support line goes down.

On more careful examination, the public support for the Slovak government policies should be judged based on their activity while in office, after 1993. If we observe the dynamics of public opinion after Slovakia actually became an independent country, public support did not decline as categorically in Slovakia as in Hungary. More importantly, public support cannot be assessed as having declined, since between 1993 and 1997 support fluctuated around the 40 percent line, and was merely five percentage points lower in 1997 than in 1993. This finding does not merit the qualification that public support for the introduction of a market economy declined in Slovakia, since the fluctuations are minimal, and are normal given the changes that the country, as the entire region were experiencing.

From this perspective, the diagram in Figure 15 resembles more the Polish case than the Hungarian one. The public support line maintained itself at about the same, fairly high level (roughly forty percent), while the policy line followed an ascending direction, towards meeting the public support line in a model resembling the responsive government model. Even if the available data does not permit the observation of trends beyond 1997,

up to that point, the Slovak government seems to have been responsive to public preferences. This finding is all the more remarkable given that unemployment, the traditional deflector of public support for a market economy was relatively high during the same period.

However, post-1998 analyses of the state of the economy and of societal trends between 1993 and 1997 point out that both economic growth and popular support for government policies were artificially stimulated and maintained. Economic growth was stimulated with excessive levels of public investment, foreign borrowing and bank credits granted under non-market conditions, which produced a surge in economic growth. Analyses in 1998 revealed that the economy was close to an imminent collapse when the change of regime occurred.

Similarly, the maintenance of public support in Figure 15 may reflect other social phenomena than support for the introduction of a market economy. Popular support for government policies was skillfully maintained in Slovakia throughout the entire period with populist campaigns, nationalist slogans, and with the use of pro-government rhetoric through the channels of the state-dominated national television. More importantly, public support was maintained with expensive social programs which further depleted government resources while creating the perception that the introduction of a democracy and a market economy was an easy and affordable development.

An immediate inference that can be drawn from the results of these post-1998 analyses is that the diagram in Figure 15 does not reflect real trends. The ascending direction of the economic growth line does not necessarily reflect the growth of a market economy, but the results of artificial stimulation of selected economic sectors, which

amounted to growth for a short period. The popular support line does not really reflect support for the market economy, but rather support for a particular government and its policies.

That economic growth was not healthy, nor nearly as steady or as consistent as it might look is shown by the reversal of trends as soon as the government who stimulated artificial growth policies was out of office, after 1998. In fact, economic slow-down was witnessed even before the government was voted out, starting in 1997. The budget, trade, and fiscal deficits inherited by the government voted in the 1998 elections were so appalling that austerity measures were needed immediately, and were introduced in a fairly radical manner.

Additional public opinion data indicate that the so-called support for the introduction of a market economy should be regarded with reservation, and questioned. Figure 16 below shows the dynamics of public opinion on the question of the introduction of a market economy.

According to this diagram, public opinion was polarized on the question of the introduction of a market economy. About forty percent of respondents believed that the introduction of a market economy was right throughout the period under discussion; and roughly the same percentage believed that it was wrong. If such results were recorded during a time of economic uncertainty, reversal of economic trends, or other types of economic unpredictability, this diagram would have made sense. Instead, the diagram shows public opinion trends during a time of economic growth. This polarization indicates that other considerations besides the introduction of a market economy were on people's minds when answering their questionnaires, and that social groups were evenly

split for a fairly significant period of time on the issue of government pursuit of a particular policy. This polarization became more pronounced on the eve of the 1998 elections.

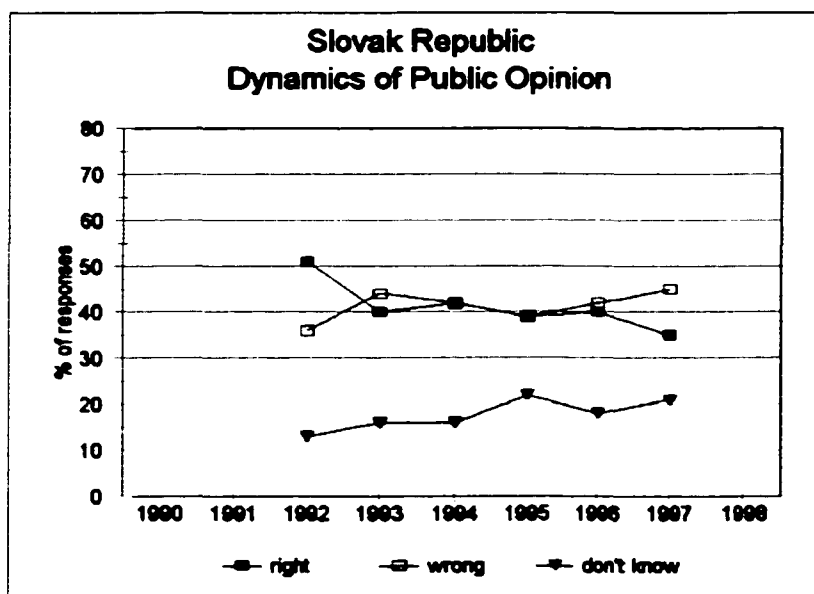


Figure 16. Slovak Republic: Dynamics of Public Opinion on Support for the Introduction of a Market Economy

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

The available data does not allow for an analysis of whether those who believed in the introduction of a market economy were in fact Mečiar followers, while those who did not, in fact rejected the kind of market economy that he was fostering. Given the amount of public manipulation between 1993 and 1998, we can allow for the possibility that public support merely reflected a polarized vote of confidence for the government by some social segments, rather than a vote of confidence in economic policies that brought about general well-being.

Additional data suggest that individual economic well-being was not necessarily the driving force in public support for the market economy. If support for the market economy was indeed a result of increased individual well-being, we should expect respondents to believe that their personal situation would improve. Instead, the data in Table 16 below indicate that the largest numbers of respondents were not in the category who believed that their situation would improve in the following twelve months, but in the category of those who believed that their situation would not change.

**Table 16.--Slovak Republic: Public opinion on financial situation in the household**

	1992	1993	1994	1995	1996
Will be better	21	27	23	24	22
Will be same	21	26	39	38	40
Will be worse	54	43	33	30	33

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Notes: Figures in percentages. In 1990, the question was, "Over the next 12 months, how will your own financial situation change?" Starting in 1991, the question was "Over the next 12 months, do you expect the financial situation of your household will get a lot better, get a little better, stay the same, get a little worse, or get a lot worse?" The 'get a lot better' and 'get a little better' categories were cumulated. The 'get a little worse' and 'get a lot worse' categories were cumulated. Starting in 1997, the question was dropped from questionnaires.

If the constant support for the market economy in Figures 15 and 16 reflected support for the particular type of market economy being introduced, we should observe larger or increasing numbers of respondents believing in the future well-being of their household. Instead, in Table 16 above we observe that the category that is consistently larger, especially after 1993, is the category who believes that their situation would not

change. This suggests that the public support in Figure 15 reflected a combination of considerations about the current government policies but not necessarily support for the introduction of a market economy.

This hypothesis is problematic, especially from a methodological point of view. If numbers do not mean what they say they mean, then how is a comparative, or a country analysis to proceed? Unfortunately, the case of Slovakia until 1998 resembles more the development and take-over of political power by communist practices, than the development of an open democratic system. Mečiar was often criticized for trying to take the country back to communism, rather than forward, to a democracy. This may explain why trying to analyze political and social phenomena starting from the assumptions of a democratic environment, and using the tools of advanced democratic systems may end up being an attempt to count apples while thinking we were counting pears.

Puns aside, the fact remains that the case of Slovakia poses difficult methodological problems to a comparative analysis of this kind. This is why looking at more, rather than less data is helpful, in order to match more descriptive assessments with some hard facts.

#### GOVERNMENT RESPONSIVENESS: THE VOTERS' VERDICT

How did the voters react to these developments and how does voter behavior corroborate with the assessments in previous sections? Table 17 below summarizes election results for the Slovak National Council for 1994 and 1998.

The 1994 election victory by HzDS was expected, and should be attributed to several factors other than the pursuit of economic policies. National feelings, popularity,



and effective electoral campaigns influenced more the public choice of 1994 than the belief in the superiority of the HzDS program. HzDS and its leader claimed victory in restoring

**Table 17.--Slovak parliamentary election results (1994-98)**

Parties	1994		1998	
	% of vote	seats	% of vote	seats
Movement for a Democratic Slovakia	35.0	61	27.0	43
Common Choice Bloc	10.4	18		
Hungarian Parties Coalition	10.0	17		
Christian Democratic Movement (CDM)	10.0	17		
Slovak Democratic Coalition (CDM, DUS)			26.3	42
PDL			14.7	23

Data from *Europa World Year Book* (London: 1999), Vol. 2, pp. 3142-3144.

the national identity of the Slovaks, and convincingly argued that was the only political entity who could bring about domestic prosperity and international recognition. The HzDS leader was highly popular after the declaration of independence, and had a personal charisma that no other political leader had. The HzDS electoral platform of 1994 promised reforms for the future of the country, and the campaign was highly effective in rendering the message. Overall, HzDS was the only political group with a sound, well-presented program, and a well-developed election campaign.<sup>20</sup>

By comparison, the opposition was not crystalized yet and internal party power struggles were as common in Slovakia as in the cases of the Czech Republic, Hungary and Poland. A weak and disunited opposition made it even easier for the HzDS to project an image of saviors of the motherland, and to win the parliamentary elections of 1994.

The fact that segments of the population truly believed that the HzDS was the sole hope for the country is reflected in the diagram in Figure 17 below. Prior to the 1994 elections, the direction of the public mood with respect to satisfaction with democracy was on the decline. This trend corroborates roughly with the lowering of support for a market economy; but as discussed previously, generalizations based on this support line should be made with care. After the 1994 elections, the public mood with respect to democracy witnessed a boost of about ten percentage points, and thereafter oscillated between twenty and thirty percentage points.

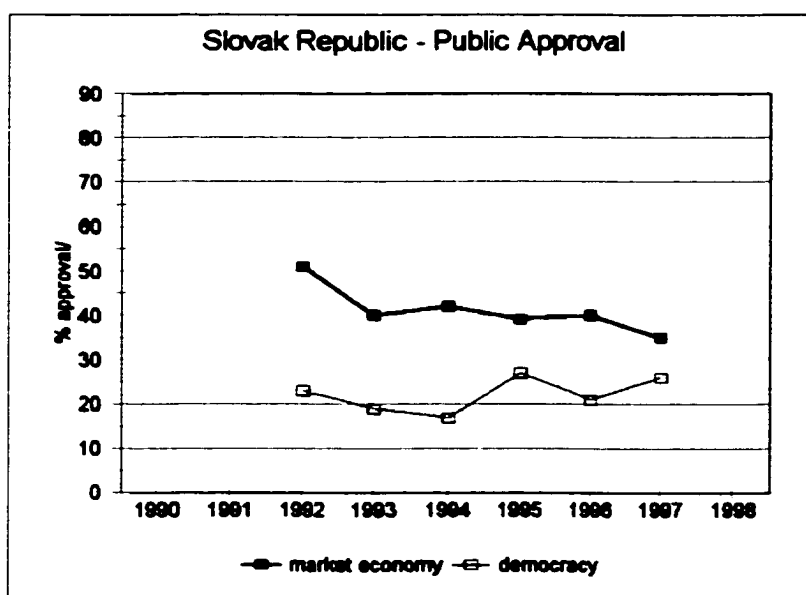


Figure 17. Slovak Republic: Public Support for a Market Economy and Satisfaction with Democracy

Data from *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

This surge indicates that the public mood was hopeful right after the elections that brought HzDS to power; and indirectly supports the previous hypothesis that the public

support line for the introduction of a market economy in Figure 15 may reflect more than support for a particular set of policies, but rather political support for HzDS in general.

However, if the reader has questions regarding the credulity of the Slovak people in face of several years of populist campaigns and dominance of the political space by one party, the Slovak election results show that credulity did not last for ever. In 1998, the HzDS still won the largest percentage of votes, but no longer commanded a majority of votes. Although public support was just twelve percentage points below what the HzDS gained in the 1994 elections, a cumulative forty percent of the public voted for parties opposed to the HzDS. In 1998, the combination of dissatisfaction with the current government, the polarization of politics, the existence of a political alternative (the Slovak Democratic Coalition), and the effects of the failed referendum on NATO membership corroborated to render the HzDS less powerful than it was in the past. The 1998 election results suggest that the Slovak public used its power to vote out of office the political group it no longer believed in.

Further developments confirm that Mečiar no longer had the confidence of the population, and that the 1998 voting out of office was not an accident. In the spring of 1999, Mečiar ran for president, and lost. His public reaction, displayed on national television, was to reproach the population for their lack of gratitude and to promise his total retreat from politics.<sup>21</sup> The popular rejection of a political figure who enjoyed wide popularity for many years speaks for the fact that the Slovak society is maturing, even if its leaders may not.

## CONCLUSIONS

The case of Slovakia between 1993 and 1998 is probably not fit for an analysis of representation. The government in power during this period displayed leadership characteristics more appropriate for an analysis of centralizing power than an analysis of emerging democracies. While the data reflect progress in the transition to a market economy by the government in power, developments less likely to be summarized by numbers suggest that Slovakia developed the appearance of a market economy and of a democracy. The only development that suggests a re-orientation of the country towards developing a democratic environment is the voters' use of their right to deny leadership to those who misuse power. It remains to be seen if the country will stay this course, or if economic hardships and lack of political skills by the current power coalition will render Mečiar appealing to the population again.

## NOTES TO CHAPTER VII

1. "If the tendencies in economic policy established by the former government, particularly over the past two years, would have continued, it is evident that very serious deformations of a destructive character could have affected the Slovak economy," Slovak Finance Minister Brigita Schmognerova said at a press conference in November 1998. The imbalance between budgeted and actual expenses, together with the existence of a non-competitive market, forced the government that was voted into office in 1998 to introduce austerity measures that affected government spending as well as social programs spending. See "Finance Minister Outlines Planned Austerity Measures," *FBIS-EEU-98-335* (December 1, 1998); "Miklos Report Warns of Crisis in Slovak Economy, Society," *FBIS-EEU-98-363* (December 29, 1998). The lack of awareness of the state of the Slovak economy at the end of six years of Mečiar rule among trade unions and other social groups resulted in weak popular support for government attempts to implement a mid-term economy strategy which capitalized first on restoring an infrastructure system that would generate government revenue and, second, on using the revenue for social benefits. See "Miklos: Unions Show Lack of Awareness of Economy's State," *FBIS-EEU-1999-0809* (August 6, 1999).
2. "Slovak Nationalists Agitate for More Autonomy, Oppose Radical Privatization," *Radio Free Europe/Radio Liberty Research Institute, Soviet/East European Report*, Vol. 8, No. 25 (March 20, 1991), pp. 1, 4.
3. Ján Carnogusky, leader of the Christian Democratic Movement which formed part of the Slovak coalition government in 1990, advocated more autonomy for Slovakia, but never pushed for full independence. The Slovak National Party, a more radical party, associated itself with Publics Against Violence advocating complete secession of Slovakia from the Federation. At no point during these debates was President Havel's proposal for a national referendum on the future of the Federation accepted by the Slovak part of the Federal Assembly, dominated by Mečiar's group. Mečiar's power to convince politicians and large masses of Slovak voters that independence was the only alternative for Slovakia seems to have been grounded in populist appeals to nationalist feelings and a rhetoric that Slovakia had nothing to gain from being part of a strong federation. Rather, he advocated, Slovakia had been hurt by the federal economic policies, particularly those related to privatization. See Jan Obrman, "Outgoing Prime Minister on the Future of Slovakia," (interview) *RFL/RL Research Report*, Vol. 1, No. 25 (June 19, 1992), pp.32-33; Jiri Pehe, "The New Slovak Government and Parliament," *RFL/RL Research Report*, Vol. 1, No. 28 (July 10, 1992), p. 33.
4. Jan Obrman, "Slovakia Declares Sovereignty; President Havel Resigns," *RFL/RL Research Report*, Vol. 1, No. 31 (July 13, 1992), pp. 25-29.

5. Increased state control over various aspects of social and economic life were evident fairly early after the return to power of the HzDS. Slovakia's negative image in Europe and the United States dates back to early 1995. Insiders have constantly criticized the centralization of power, the mingling in the running of the state television, the manner of implementing the promised privatization plan, and the habit of "breaking laws" by the central government. See, for instance, "Opposition Party Says Slovakia's Bad Image Is Spreading," *Open Daily Digest*, Vol. 2, No. 50 (March 10, 1995); "Slovak Trade Unions Continue to Criticize Privatization Plans," *Open Daily Digest*, Vol 2, No. 86 (May 3, 1995); "Domestic Political Developments in Slovakia," *Open Media Research Institute*, Vol. 2 (May 29, 1995); also "SDL Criticizes Government 'Concentration of Power,'" *FBIS-EEU-95-048* (March 13, 1995). An amendment to the law on the organization of ministries and other government bodies led to the shifting of "the original constitutional situation, without amending the Constitution, a few millimeters in favor of the present governing team." "Comment: Jurisdiction Law Expands Mečiar's Powers," *FBIS-EEU-95-050* (March 15, 1995).
6. "Parliament Passes Bills Increasing State Role," *FBIS-EEU-95-137* (July 18, 1995). The law basically provided for the state to retain a golden share in the companies characterized as "strategic." This golden share gave the state the right of veto regardless of its share in the company's property. The introduction of the bill was met by serious debate and protest by opposition groups, who described the law as "indiscriminate state interference" in economic developments. As a result of the application of the law, enterprises were sold off to a few people, at low prices, in a clear disregard for the need to generate state revenue for social services, as promised during the election campaign and demanded by the population. This practice prompted the first demonstration against the government policy in the social sphere, which was found to be lacking. See "First Mass Rally by Trade Unionists Since 1989," *FBIS-EEU-95-190* (October 2, 1995).
7. *Transition Report 1997*, pp. 198-199; *Transition Report 1998*, pp. 188-189.
8. "Duray: U.S. See Slovak Democracy 'Jeopardized,'" *FBIS-EEU-95-138* (July 19, 1995).; "Mečiar's Attitude Toward Democracy Criticized," *FBIS-EEU-95-194* (October 6, 1995).
9. One such bill introduced by the HzDS-dominated government was designed to create a restrictive framework in which non-governmental organizations could operate. The European Union protested against the bill and called on the Slovak legislators to pass legislation compatible with European legislation and practice regarding non-governmental organizations. See "Controversial Foundations Bill on Government Agenda," *FBIS-EEU-96-084-A* (April 23, 1996); "European Commission Urges Revision of Foundations Bill," *FBIS-EEU-96-095* (May 14, 1996), and "Approved Version of Foundations Bill Criticized," *FBIS-EEU-96-084* (April 25, 1996). Similarly, amendments to the Penal Code were seen to infringe on the freedom of civilians and to disregard international values held elsewhere in the family of

democratic states. The amendment was opposed strongly by several civic organizations, which organized rallies of protest against the amendment. See "Demonstration Against Penal Code Amendment Planned," *FBIS-EEU-96-077* (April 17, 1996). In 1996, a law on the "protection of the republic" was passed. The law defined as subversive "organized public rallies aimed at subverting the constitutional system" and punished people who organized anti-governmental rallies or spread "false information" abroad. See "Slovakia Approves Draft Law on 'Subversion,'" *Central European Digest*, Vol. 1, No. 305 (March 11, 1996).

10. Popular demonstrations against the Mečiar government have taken place in Slovakia more often than is actually documented. The state-dominated television only covered events and news that were favorable to the government, and much of the public opposition to the Mečiar government has remained undocumented. See, for instance, "Thousands Reportedly Demonstrate against Government," *FBIS-EEU-96-223-A* (November 14, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>. For the status of the state-dominated television, see "Kovac Sends 'Highly Critical' Letter to STV Board," *FBIS-EEU-96-097-A* (May 12, 1996).
11. Constitutionally, at that time Slovakia was electing the President by securing three-fifths of the National Council's support for one candidate. The vote was secret, and members of the Council voted for one of the eligible candidates. Since that majority proved hard to reach (President Kováč did not secure that kind of support in 1993, when he was designated rather than elected by the National Council to be the President of the country), the need was felt to amend the Constitution to provide for a different methodology of electing the president.
12. For details on the failed referendum, see "Slovakia: A Status Report," *Radio Free Europe/Radio Liberty*, Home Slovak Service, particularly the section on post-referendum coverage (1996); also, Miroslav Sedivy, "Referendum," *Slovakia Daily Surveyor* (May 23, 24, 1997), <http://www.Slovensko.com>. The manner in which the government spoiled the referendum prompted renewed popular demonstrations against government practices. See "Demonstrations in Slovakia," *Open Media Research Institute Daily Digest, Slovak Selection* (June 4, 1997).
13. Martin Bútora sees the failed referendum as the "turning point" in Slovak politics, the moment when citizens and other political groups understood that without serious and concerted efforts on the part of the civil society, and of opposition political groups, Mečiarism would not be thwarted. See Martin Bútora and Zora Bútorová, "Slovakia's Democratic Awakening," *Journal of Democracy*, Vol. 10, No. 1 (January, 1999), pp: 80-95.
14. Commission of the European Communities, *Regular Report 1999 from the Commission on Slovakia's Progress Towards Accession*, COM 511 final (Brussels: Commission of the European Communities, October 1999), p. 26.

15. European Commission, *Agenda 2000 Enlargement: Regular Report 1998 from the Commission on Slovakia's Progress Towards Accession*, Bulletin of the European Union, Supplement 8/98, Luxembourg: Office for Official Publications of the European Communities, pp. 16-17.
16. Ibid., p. 17.
17. In 1998, the Slovak Statistical Office changed its methodology for recording external trade to apply international standards. As a result, a full comparison of trade figures between different years is not fully possible. The European Commission considers that economic development may have been less favorable than it appears even prior to 1995. See *Agenda 2000: Slovakia*, p. 12, n1.
18. Ibid., p. 14.
19. President Kovac criticized the policy of encouraging the utilization and exhaustion of domestic resources before encouraging serious foreign direct investment, fostered by Mečiar. He pointed out on many occasions that without confidence in Slovakia's domestic political stability, foreign investors would not rush to invest in any major sectors. "Kovac Views Republic's Economic Situation," *FBIS-EEU-95-137* (July 18, 1995).
20. Among other things, the HzDS program promised "economic recovery and prosperity" via the "implementation of economic transformation based on market relations, plurality of property forms with preponderance of private ownership, universal human values, and the individual's participation and share in the implementation of society's targets and economic recovery." The part about the individual share in the recovery of the Slovak society could have and did sound to some ears like the return of the communist ideology; however, at the time, the popularity of Mečiar, given the declaration of independence, was too high to be countered with suspicions of this kind. See "Daily Carried HzDS Election Manifesto," *FBIS-EEU-94-188* (September 21, 1994).
21. Ross Larsen, "Mečiar literally sings the blues," *Prague Post* (August 24, 1999), <http://www.praguepost.cz/archive/news100798a.html>.



## CHAPTER VIII

### ECONOMIC REFORM AND GOVERNMENT RESPONSIVENESS: BULGARIA AND ROMANIA

#### BACKGROUND

Government willingness to listen to public calls for the reform of the economy and the introduction of a market economy was not as strong in Bulgaria and Romania as it was in the first set of countries analyzed. In both countries, publics supported the introduction of a market economy, even if not as convincingly in the beginning of the transition as their neighbors. In both countries, governments were slow and indecisive at introducing reforms, with a resulting economic crisis in Bulgaria in 1997, and a recession in Romania starting in 1996.

The story of Bulgaria may be one of those stories of late-starters that run faster than contestants already engaged in the race and eventually make a good race. The so-called “good race” comes, however, at the end of the period under discussion in this study. As a result, for the period between 1990 and 1997 when the change in the government’s attitude towards economic reform occurred, there were few indications that the minimum conditions were in place for an analysis of representation to be appropriate.

The story of Romania was found to be equally unfit for an analysis of representation. Throughout the period under discussion, the country’s political scene was dominated by a group of reformed communists who delayed market reforms until 1994. Despite popular calls for the introduction of a market economy, the government chose to be evasive and indecisive about its program. Once some reforms were in place, the

government modified the legislative framework to a point where reforms were stifled. Negative economic growth was the result of this indecisive line of economic policies, and the country entered a period of recession that continues into the year 2000.

The brief summary of political and economic developments below highlights the two reasons why a representation analysis was found to be inappropriate at this time for either Bulgaria or Romania. First, governments in both countries were indecisive about reform when popular calls for the introduction of a market economy were sustained. Second, while publics demanded the introduction of a market economy, they voted in office political groups whose plans for the reform of the economy were vague, and sometimes non-existent. These two factors make the case for a lack of maturity on constituencies' part, and of lack of willingness to heed to constituencies on the governments part. These two aspects indicate that publics and governments in Bulgaria and Romania are not yet ready for the requirements of representation.

## BULGARIA

The first post-communist government in Bulgaria, the Union of Democratic Forces (UDF), had a poor economic agenda and did not have the needed political skills to govern successfully. Its poor leadership led voters to elect the former communists calling themselves Socialists, the Bulgarian Socialist Party (BSP) in 1990.

The BSP manifested no intention to reform the economy, and vetoed legislative and executive initiatives which attempted to introduce measures conducive to a more open market in Bulgaria. In return, then-President Zhelyu Zhelev, UDF leader, vetoed several

laws that the BSP tried to introduce to increase the government's control over the media, the restitution of land, elections, and privatization.

As the economic situation worsened, civic and labor groups started demonstrating in the streets, demanding real reform and democracy. Throughout the mid-nineties, labor unrest remained prevalent, and non-governmental groups maintained the pressure on the government for reform. As a former presidential advisor captured the situation, people were "disappointed with the imitation of democracy, the imitation of market economy, and the imitation of Western-oriented foreign policy."<sup>1</sup>

After seven years of poor economic performance and a mock democratic regime, the Bulgarian economy witnessed a major crisis in 1997, with hyperinflation, very low standards of living, virtually no economic growth, and little privatization.

The socialists were forced out of the Parliament through the backdoor by angry masses of demonstrators who demanded economic reform and political measures conducive to a democratic regime. The reformed and better prepared UDF was voted back in power, and started an aggressive program of economic reform that focused on macro-economic stabilization, privatization, encouraging foreign investment, reducing inflation, and liberalizing the economy.

By 1999, many economic analysts and investors in the region considered Bulgaria to be catching up with the front runner countries, and economically doing better than Romania, which started its economic reforms slowly, but earlier in the decade than Bulgaria.

A brief glance at transition indicators reveals how much behind the front-runner countries Bulgaria was in terms of reforming its several key sectors in order to set the

stage for a functioning market economy. Almost in all categories of transition indicators, Bulgaria is one or two points behind on the scale of evaluation of its reforms.

**Table 18.--Bulgaria: Indicators of progress in transition to a market economy**

	1994	1995	1996	1997	1998
Private GDP share	40%	45%	45%	50%	50%
Large scale privatization	2	2	2	3	3
Small scale privatization	2	3	3	3	3
Governance and restructuring	2	2	2	2.2	2.2
Price liberalization	3	3	2	3	3
Trade system	4	4	4	4	4
Competition policy	n/a	2	2	2	2
Bank reform	2	2	2	2.8	2.8
Securities reform	n/a	2	2	2	2
Investment law	n/a	3	4	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

Among the countries in Eastern Europe, Bulgaria had fifty percent of GDP coming from the private sector, the lowest in the region at the end of 1998. While the front runner countries had elaborated, passed into law, and enacted privatization schemes, achieving more than fifty percent of privatization of their state-enterprises on average, Bulgaria was still struggling to elaborate a comprehensive scheme for the large-scale

privatization. Between 1992 and 1997, roughly twenty percent of enterprise assets were privatized. In 1997 alone, transition indicators signal that the country moved more determinedly towards privatizing of large-scale enterprises, privatizing around four percent of large enterprises in the chemical and metal sectors.<sup>2</sup>

In the small-scale privatization category, while all the front-runners completed the privatization of their small companies and were moving towards standards of performance typical of advanced economies, Bulgaria was lagging seriously behind, putting its comprehensive program together and trying to apply it.

In the governance and restructuring category, indicators signal a moderately tight credit and subsidy policy, but weak enforcement and little action taken to strengthen competition and corporate governance.

In the price liberalization category, and further in the trade and foreign exchange system, Bulgaria came the closest to being on target with its transition progress. For most of the period under discussion, the country had a level of price liberalization compatible with the front-runner countries. Indicators do record regression towards re-establishing state-control over some prices in the middle of the period, in 1996. In the trade and foreign exchange system, indicators signal that restrictions were removed from imports and exports, in a manner compatible with front-runner countries.

In the competition policy category, Bulgaria is again behind the other countries, although not as far behind as Romania. Indicators reveal that competition policy legislation and institutions were set up, but without the enforcing mechanisms needed to make competition a reality.

In bank and securities reform, Bulgaria lagged significantly behind the other countries, with rudimentary reforms put in place and vaguely enforced.

The poor showing of government reform programs and legislation had an immediate and hard effect on the economy. Macro-economic indicators below show that for most of the period under discussion, the Bulgarian economy experienced negative growth, high inflation, high unemployment, very low monthly earnings, relatively low foreign direct investment, and a fluctuating trade balance.

Table 19.--Bulgaria: Macro-economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-6.9	4.0
Consumer prices (average)	333.5	82.0	73.0	96.3	62.0	123.0	1,082	25.0
Gross average monthly earnings in industry (annual average, adjusted for inflation) <sup>a</sup>	n/a	-50.8	-17.9	-42.4	-4.3	-28	n/a	n/a
	<i>(% of labor force)</i>							
Unemployment	11.1	15.3	16.4	12.8	11.1	12.5	13.7	n/a
	<i>(in millions of U.S. dollars)</i>							
Trade Balance	404	-212	-885	-17	120	209	381	-200
Foreign Direct Investment	56	42	40	105	82	100	497	300

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 211.

<sup>a</sup> Calculated by author from EBRD data.

Interposed on this catastrophic situation of the economy remains the political instability and indecisiveness of all the governments which were in office between 1990 and 1997. Political unwillingness to reform, on the part of the socialist government, and

political unpreparedness to reform, on the part of UDF and other pro-reform political groups led the country to sink in crisis by 1996 and 1997.

Figure 18 below shows how public support for the introduction of a market economy interplayed with political developments and government action on the reform of the economy. Figure 18 shows that as popular support for the introduction of a market economy is high, the economy is taking a negative growth direction. Government policies produced a serious crisis which started technically in 1991, at a time when people were demanding reform.

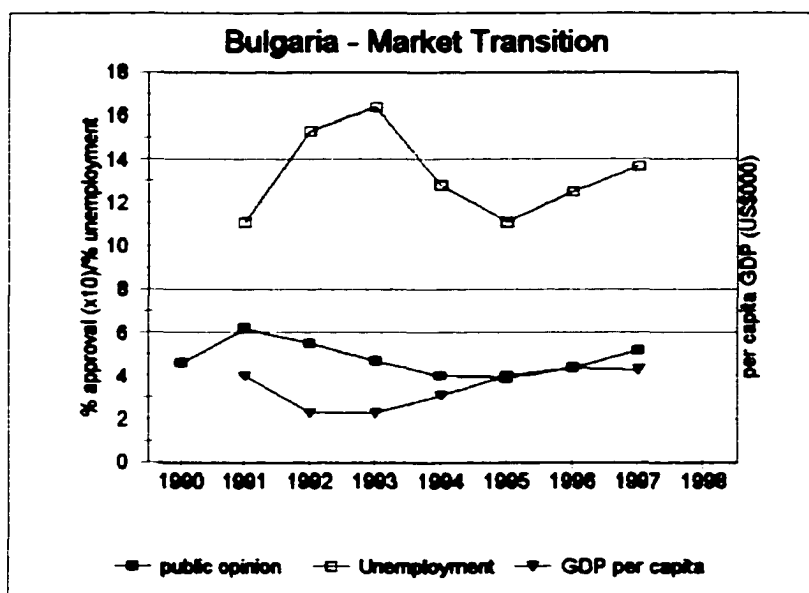


Figure 18. Bulgaria: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 211 and *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

Additionally, Figure 18 shows that government action was not only insensitive to constituency demands for the introduction of a market economy, but also to the sky-

rocketing rate of unemployment. At its lowest, unemployment in Bulgaria was around eleven percent, and growing as high as sixteen percent.

If the data recorded in Tables 18 and 19 reveal little government interest in reforming the economy, Figure 18 reveals little government interest in listening to constituency demands. Overall, an analysis of representation in this case was found to not be justified by the available data, nor by the political developments between 1990 and 1997, which show government unwillingness to consider reform, therefore government unwillingness to heed to constituency's voice.

An additional element that makes the choice of representation even less likely in Bulgaria for the period under discussion is the role that the publics played in the political course of the country. While favoring the introduction of a market economy, the Bulgarian public voted socialists back in power twice between 1990 and 1997.

It has been argued that the lack of preparedness for power positions of reform-oriented groups such as UDF was the main element in favor of the socialist group in the beginning of the transition. The population was impressed with the lack of coherence of pro-reform parties, a natural posture considering that they were emerging out of over fifty years of communism and had little experience with democratic politics.

The seeming lack of experience by pro-reform groups, and the seemingly organized and recognizable pattern of politics that the socialists proposed, were factors that weighed heavily in the popular choice of 1990. However, it is not clear why the public returned socialists to power in 1994, after the evident decline of the economy and the proven disinterest of the socialists to introduce economic reforms.



Overall, political immaturity on behalf of both the Bulgarian public and the governments in power between 1990 and 1997 indicate that a representation analysis is premature for this country. It remains to be seen if the course that the country took since it defaulted in 1996 will be maintained. If economic reforms continue, in keeping with popular calls for the introduction of a market economy, and if the public gives signs of maturity in the selection of public governants to carry out the economic program and other popular mandates, it may be possible to elaborate a representation analysis for Bulgaria in the next five to ten years.

## ROMANIA

Romania's situation is somewhat ironic, given that the country was run eventually by former communists with little interest in economic reforms for most of the period under discussion in this study. It is ironic because the change of communist regime in this country was the only one accompanied by loss of human lives during a popular revolution in December 1989. The irony comes as a result of the fact that after losing many lives to get rid of the communist regime of Nicolae Ceaușescu, Romanians immediately elected a group of reform-minded communists. To go further, Romanians re-elected the same political group after two years of slow-to-nonexistent economic reforms, in 1992.

The resulting economic deterioration of the economy eventually prompted a different, more reform-oriented political group to power. Unfortunately, the Constantinescu administration voted in office in November 1996 was unable to set a clear direction for the country's economy, which ended the nineties in deep recession.

Romania started the reform of its economy in low gear. The change of regime in 1989 found the society quite unprepared for massive changes, and without strong leaders to take the country into a market economy or a democracy. After the political transformation of 1989, two rounds of free elections were won by reform-minded former communists under the leadership of Ion Iliescu. Until 1995, minimal economic reforms were undertaken. Privatization of large state enterprises was almost non-existent, and small-scale privatization was allowed to start only in 1992. Liberalization of prices was done in stages, with most prices liberalized only in 1995.

In late 1996, a new administration was elected to power, with promises for thorough and rapid reform. The coalition of political forces that came to power under the leadership of Emil Constantinescu was a mix of parties opposed to Iliescu's PDSR, and center-right.

Despite the fact that the National Peasants's Party (PNT-CD) was the strongest coalition partner, it failed to secure the agreement of the other coalition partners, primarily of the junior party of Petre Roman, the Democratic Party (PD). This failure led to a slow and unconvincing set of reforms, a government crisis in December 1997, another crisis in February 1998, the resignation of Premier Victor Ciorbea and appointment of Radu Vasile as the next Prime Minister, the sacking of Vasile and the appointment of the governor of the Central Bank to the position of Prime Minister in February 2000.

Despite these reshuffles, the government coalition still failed to produce the promised change and reform of the economy. A package of reforms was passed in February 1998, followed by amendments and legislative incoherence which drove investment out. At the end of 1999, Constantinescu's legitimacy as a strong leader was

questioned, and his chances for re-election in the November 2000 elections were seriously challenged by Iliescu and other candidates. Provided that the current coalition decides to take some dramatic steps to reform the economy, which continues to decline, it is not clear that there is enough time for pro-market political forces to make up for the lost time and boost their chances for re-election.

Table 20 below shows that the Romanian governments between 1990 and 1997 have little to show with respect to their efforts to reform the ailing Romanian economy. Transition indicators reveal that Romania is the country which witnessed the lowest level of progress towards the introduction of a market economy, and the largest number of reversal of policies.

**Table 20.--Romania: Indicators of progress in transition to a market economy**

	1994	1995	1996	1997	1998
Private GDP share	35%	40%	60%	60%	60%
Large scale privatization	2	2	3	2.8	2.8
Small scale privatization	3	3	3	3	3.2
Governance and restructuring	2	2	2	2	2
Price liberalization	3	3	3	3	3.2
Trade system	4	4.2	3	4	4
Competition policy	n/a	1	1	2	2
Bank reform	2	3	3	2.8	2.2
Securities reform	n/a	2	2	2	2
Investment law	n/a	2	3	n/a	n/a

Data from European Bank for Reconstruction and Development, *Transition Reports* (London: 1994-1998), Tables 2.1.

Note: Except for 'Private GDP share,' figures represent ratings of progress calculated by EBRD (1 lowest, 4.2 highest).

These indicators say that Romania was behind Bulgaria with respect to private share of GDP until 1996, with thirty-five and forty percent of GDP coming from the private sector. They show that until 1996, Romania was on par with Bulgaria with respect to large-scale privatization, having elaborated a scheme but not having started to implement it. In 1996, during a short period of privatization, the government managed to privatize around twenty-five percent of large-scale enterprises. Starting in 1997, that trend was reversed, with the government going back on its policies and annulling a number of legislative and executive decisions made to boost privatization.

In the small-scale privatization area, Romania fared better than Bulgaria since it had a comprehensive program by 1995, and started to implement the program as well.

With respect to governance and restructuring, and price liberalization, Romania was roughly at the same rating level as Bulgaria. Bulgaria made additional efforts to enforce the restructuring scheme starting in 1997, which gave it a slight boost in the rating scheme (2.2) while Romania remained at a low rating level of 2.

With respect to the trade system ratings, we witness yet another reversal of ratings, indicating a backward shift of policies. While in 1994 and 1995 Romania was rating quite high, indicating that restrictions on imports and exports had been removed, in 1996, we see a reversal of that trend and a return to imposing some trade barriers and restrictions. Table 21 (Macro-Economic Indicators) below shows that foreign investment was immediately affected by these changes and going back on policies. In 1996, direct foreign investment was roughly half the size of the previous year.

Even less progress was made in competition policy. Until 1997, the country had no competition legislation and no institutions to promote market competition or to enforce

it. In the banking sector, Romania witnessed yet another reversal of trends. After having made progress in the establishment of bank solvency, one of the few areas in which Romania was actually ahead of Bulgaria, in 1997 the legislative acts went back again on what they stipulated two years before and restricted rates, lending procedures, and capital availability for small and medium size enterprises.

Finally, with respect to encouraging investment, ratings place Romania behind Bulgaria as well.

These poor transition ratings are reflected in the state of the economy, Table 21 below.

Table 21.--Romania: Macro-economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998
	<i>(Percentage change)</i>							
GDP at constant prices	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.6	-5.0
Consumer prices (average)	161.1	210.4	256.1	136.7	32.3	38.8	154.8	60.0
Net monthly average earnings (annual average, adjusted for inflation) <sup>a</sup>	-40.5	-40.0	-59.6	1.0	16.6	-13.1	-56.5	n/a
	<i>(% of labor force)</i>							
Unemployment	3.0	8.2	10.4	10.9	9.5	6.6	8.8	n/a
	<i>(in millions of U.S. dollars)</i>							
Trade Balance	-1,345	-1,373	-1,130	-483	-1,605	-2,494	-1,971	-2,600
Foreign Direct Investment	37	73	97	341	417	263	1,224	900

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 224.

<sup>a</sup> Calculated by author from EBRD data.

Table 21 highlights the swings of reversals of policies in the market economic field. It shows that the Romanian economy took time to experience growth, until 1993, then three years later sank into negative growth again. It shows that investment was barely

existent until 1994, which is often credited to the absence of primary legislation to regulate the rules of trade in Romania.

Foreign direct investment witnessed a dramatic boost after the 1996 elections, when pro-market political forces were elected for office. This popular vote signaled the investor community that the Romanian population could be ready to switch to reform policies. Investment during that year jumped six times higher than the previous year. The following year, in 1998, it went down again, due to inconsistencies in the application of the rule of law, and to reversals of legislation that affected investment directly..

If transition indicators and macro-economic indicators are not enough to show how complex and puzzling the Romanian situation was, Figure 19 below leaves the reader with an even more protracted question mark regarding the position of the government vis-à-vis their constituencies.

Figure 19 shows that as unemployment was soaring and public opinion demanded the introduction of a market economy, granted with fluctuations and reversals as well, the policy line was barely moving up to meet popular demands. Why did policy makers move so slowly on economic reforms and how can government attitudes towards reform be understood?

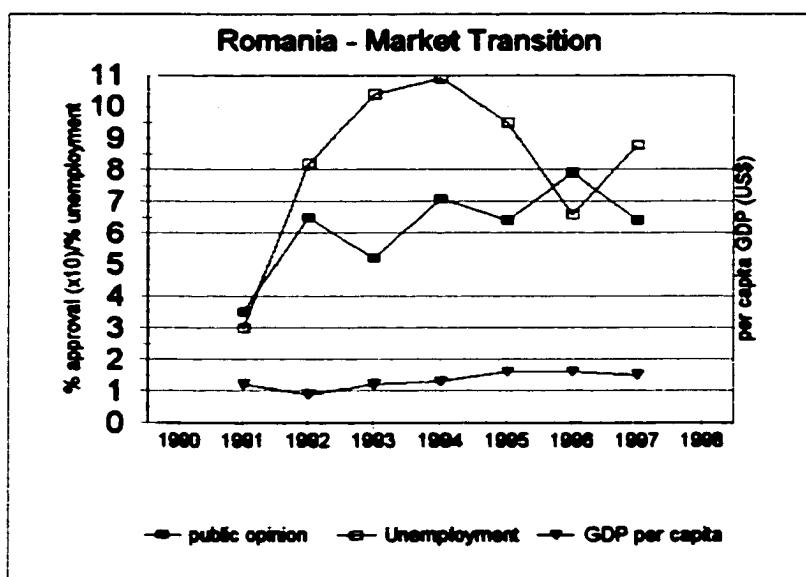


Figure 19. Romania: Public Support and Policy Outcomes

Data from European Bank for Reconstruction and Development, *Transition Report 1998* (London: 1998), p. 224 and *Central and Eastern Eurobarometer*, Nos. 1 - 7 (Brussels: Commission of the European Community, 1991-1997).

There is no simple answer to questions such as the ones above. In this particular case, just like the case of Bulgaria, the one explanation that imposes itself is the political orientation of the government in power.

Both Iliescu's political group, which dominated the legislative and the executive branches between 1990 and late 1996, and the Bulgarian BSP had a more modest change of system in mind when they took power. This is reflected in its actions, and sometimes in their official statements. Before the parliamentary and presidential elections of 1990, Iliescu admitted on national television that he was a convinced communist who believed in the rights of the many against an economic system that he considered unfair, that is capitalism.<sup>3</sup>

If Iliescu and his group had a right to their political beliefs, why did the Romanian constituencies vote them in power if, in reality, they wanted a substantial change to a market economy, which is another word for the capitalist management of the economy?

Again, there is no easy answer to such questions. It is fair to say that a number of hypotheses which have been advanced in the literature also point in the direction of delaying a representation analysis for the case of Romania. The public seems to have been as unprepared for dramatic changes as the pro-reform groups in the aftermath of the change of regime in 1989. Constituency's level of maturity in understanding how their vote would influence the pace of reform in the country was also low. Overall, the data gathered in Tables 18 through 21, and Figures 18 and 19 indicate that Bulgaria and Romania are not yet ripe for an analysis of representation.



## NOTES TO CHAPTER VIII

1. Vladimir Philipov, former foreign policy advisor to President Petar Stoyanov, .  
quoted in Elisabeth Pond, "Reinventing Bulgaria," *Washington Quarterly*, Vol. 22,  
No. 3 (Summer 1999), p. 41.
2. *Transition Report 1998*, p. 158.
3. *Romania Libera* (Bucharest), April-May 1990.

## CHAPTER IX

### THE CONCEPT AND PRACTICE OF REPRESENTATION IN EASTERN EUROPE: CONCLUSIONS

The present study analyzed the direction of democratization in the region from a representative democracy perspective. It is the argument of this study that the direction, depth, and irreversibility of processes of democratization in Eastern Europe cannot be evaluated outside the requirements of representative democracy.

Substantively, this study looked at how constituencies across Eastern Europe started holding their elected representatives accountable, and how government responded to that call. It shows that, as transition proceeded, governments became increasingly more responsive to their constituencies on the question of introducing a market economy, more engaged in explaining their strategies and policies to constituencies, and more tuned to public voice in general. This finding indicates that Eastern Europe is adapting to the requirements of a representative type of governance, and rules out the view that the region is not yet ready for a representation approach.

Methodologically, the study offered a comparative interpretive analysis of representation. This type of analysis, while statistically less rigorous allowed the researcher to highlight aspects of the quality and direction of democracy in the region that are not regularly captured by more statistically designed research projects. It looked at the variations in transition, macro, and micro-economic indicators over a period of time in conjunction with popular support for the change of economic system. In so doing, the study looked for trends of government policy vis-à-vis popular support, keeping in mind

that the question on the direction of the government-public relationship prevails over the question on the pace of economic development.

The country by country analysis elaborated in chapters four through eight permits three types of conclusions with respect to representation elements in Eastern Europe: theoretical, methodological and region specific. To these conclusions we now turn.

### THEORETICAL CONCLUSIONS

Is representative democracy the right conceptual approach to assess the direction of democracy in Eastern Europe?

At a minimum, representative democracy poses two basic assumptions imbedded in the theoretical model that are essential to the question of how appropriate representation is to the study of Eastern Europe. First, representative democracy assumes that constituencies place value on the notion that the people elected for office have a mandate to represent constituency interest. Second, representative democracy assumes that governments heed the constituencies' opinions towards issues of general, or specific concern.

These assumptions go to the core issue of legitimation of political power. Since Eastern Europe was under an authoritarian regime for a considerable amount of time, a legitimate question must be raised regarding the ability of constituencies to understand their own role in the polity. A similarly legitimate question needs to be raised regarding the elected officials understanding of their role vis-à-vis constituencies. If government leaders choose to defend a political position as acting "on behalf of those who elected" them to serve in office, they derive legitimacy for their decisions from those they

represent. Conversely, if voters choose to demonstrate in front of government buildings demanding the resignation of the government, they do so out of an understanding that public officials did not do their job in representing public interests.

The representative democracy approach is conceptually appropriate if we observe that developments in Eastern Europe indicate constituency and government awareness of the requirements of representation.

The data analyzed in the country studies suggests mixed awareness of responsibilities, requirements, and benefits of representation by both constituencies and governments. This mixture is, in retrospect, normal. The region has gone through many decades of authoritarian rule, a type of governance in which government responsiveness and accountability is a philosophical impossibility. Therefore, behavior-wise, in the first years after the collapse of communism we should expect a lower degree of awareness of requirements and benefits of representation among both governments and constituencies.

Alternatively, as freedom of speech and availability of information become the status-quo, we should expect an increased public awareness of the obligations of governments to represent popular interests, and more government inclination to recognize obligations towards constituencies. Referring back to the analysis in chapters four through eight, here are conclusions about how awareness of representation requirements evolved in the analyzed countries.

In the Czech Republic, the public seems to have been aware of their power to hold the government accountable for the manner in which they conducted politics and represented constituency interests at a fairly early stage in the transition. The Civic Forum, widely perceived as a group concerned with the needs of the many in 1989 was

voted out of office and did not even gain representation in the parliament in 1992. After two and a half years in power, the public perceived the Civic Forum as too elitist and removed from the daily needs of the constituencies, and therefore unfit to hold office.

In 1996, popular perceptions that politicians merely “do their thing” with little consideration for long-term national goals split the popular vote between the incumbent Civic Democratic Party of Václav Klaus and the Social Democratic Party. This imbalance forced the incumbent government to share power with the socialists, which, as expected, did not produce better policies or better politics. By 1998, the stalemate between the two governing parties led to early elections. Voters expressed again their dissatisfaction with the manner of politics of the incumbent government, and gave the socialists more votes than the democrats, although not enough to form a majority government. “Political tunneling” has been the catch-phrase since 1999 to describe how constituencies perceived the manner of Czech politics.

Ultimately, the Czech public became even more vocal about their unhappiness with the manner in which the government carried out its obligations towards constituencies. The civic group Impulse 99 organized massive rallies in late 1999 and early 2000, demanding the government to step down. Their demands were grounded in the perceived failure by politicians to listen to the public needs, and the public belief that politicians were focused only on getting re-elected.

On the government side, awareness of government obligations towards constituencies is present, although at certain levels and among some politicians. In 1996, the government acknowledged that it drew legitimacy for its decisions of economic transformation from its citizens. The government draft policy statement made public in

1996 highlighted the commitment of the government to “continuing the policy of rapid social and economic transformation [in the belief] that this is also the wish of the decisive majority of the country’s citizens.”<sup>1</sup>

On the other hand, President Havel voiced his concerns with Czech politics in a manner that indicates awareness of what a representative government should do. The Czech Republic, he argued, lacked “personalities,” people with “political courage to offer long-term perspectives and explain them properly to the people.” The absence of political vision was credited to the fact that “political parties tend to think in short periods from one election to another.”<sup>2</sup> Implicit in his remarks was the recognition that politicians had been self-absorbed while in office, and that they failed to communicate with their constituencies, or represent their needs.

In Hungary, the public also seems to have been aware of their power to hold governments accountable for their policies, and for the general state of the economy, particularly in the early nineties. The voting in office of the pro-market government of Jozsef Antall in 1990 was a popular vote of confidence in those perceived to be progressive and market economy oriented. The voting out of office of the Antall government in 1994 was a direct result of the government’s failure to deliver the promised economic well-being and to perceptions that Antall and his political group were in fact governing by themselves, not paying attention either to their coalition partners or to the general public.

One important element of civic awareness about what the public considered acceptable for the government to do, or not do dates back to the battle over the national media, in 1992 and 1993. During those years, massive rallies and demonstrations were

organized against what was perceived as the government's attempt to take control over the national radio and television.

At the time, the Antall government blamed its rapidly plummeting popularity on the anti-government media campaign which, the government argued, favored the opposition and weakened the government's position in front of the population. The government was convinced enough of its own explanation that it attempted to strengthen its control over the national media. In 1993, government pressure was placed on media leaders to resign, and government supporters were appointed. This prompted the civic group Democratic Charter and student organizations to organize massive rallies protesting government interference in the national television and radio.<sup>3</sup>

The instance of media war in the Hungarian case is a good example of the mixture of awareness of the requirements of representation by the government in office. While the Antall government tried to cover and deny any attempt at taking control over the national media, President Goncz joined in the popular opposition and criticized the government for their undemocratic practices and lack of responsibility towards the public.

Mid-nineties governments also displayed mixed awareness of their responsibilities towards the public who elected them. While the Socialist Party came to power largely as a result of combined popular dissatisfaction with the HDF governance and popular enthusiasm with the Socialist electoral platform, the HDF failed to live up to its promises from the very beginning. Once in office, the Horn government admitted within one year that the policy of the social welfare system promised during the election campaign could no longer be sustained, and that austerity measures were needed to balance the budget and redress the economy.

Horn and others in the government knew that their electoral promises could not be fulfilled even before they got into office. The Socialist Party's chief economist, Lazlo Bekesi, warned that empty electoral promises were going to cost the government more than the elections; they were going to cost the long-term credibility of the government. Horn chose to disregard Bekesi's public calls for a realistic budget, and accepted the latter's resignation when it was forwarded officially.

This type of behavior indicates that in Hungary, some government officials had a better understanding of their responsibilities towards constituencies than others. It also indicates that for some politicians, winning the elections with empty, populist strategies was not an acceptable political position from which to face the constituencies. This is an element of political behavior which indicates that the core values of representation are known among government officials, even if not always acted upon. It is an element of hope in the direction of Hungarian politics towards a truly representative government behavior.

In Poland, the country in which we observed a higher degree of government responsiveness to constituency interests than in the Czech Republic or Hungary, the public also used its power to hold the government accountable. Despite the fact that the Polish economy was doing well and very well, constituencies still punished incumbents by either voting them out, or by lowering public support to a level that forced political groups to form unlikely and inefficient coalitions.

Like in the previous two cases, Poland witnessed many political polarizations, especially during the first years of transition, with a record number of governments being changed by Lech Walesa. Solidarity and Walesa himself saw the rise and decline of their



popular support as a result of political indecision, increasing authoritarianism on Walesa's part, party-infighting, and a public image of divisiveness.

Interesting enough, additional information dating from more recent political developments seems to indicate an increased public awareness of a different aspect of representation, that was marginally discussed in this study, that is proportional representation. In preparation for the most recent SLD Congress, in December 1999, voivodship congresses held throughout Poland revealed agreement on the fact that some social groups are heavily under-represented. In the new Polish left, the proportion of women and youth is very low by comparison to the larger population. During a preparatory congress in Zielona Gora, a delegate even noted that "This conference room does not reflect the structure of society; here we have mostly men, and most of them represent the older generation."<sup>4</sup> The remark was prompted by the fact that out of 130 participants, only 10 were women.

In a 1996 editorial analyzing the effectiveness of political parties in Poland, politicians and parties were criticized for the short-sightedness and narrow scope of their political approach, often times unrelated to the needs and aspirations of their constituencies. Party infighting, while a healthy process if resulting in a better functioning political entity were primarily driven by personal interests and political interest for government positions. The immaturity of the political system was judged against such evident situations of non-responsiveness such as the in-party conflicts. At the time, the KPN was going through a power struggle, which prompted the leader of one of the factions to declare that the party was "where he was", and that he would therefore convene his own congress condemning the other factions.<sup>5</sup> The editorial remarked that

the very fact that a leader of a political entity in Poland can convene his “own” congress demonstrated that the intra-party democracy was still an abstract concept in Poland of 1996. Evidently, some of the media is attempting to analyze political events from a representative democracy perspective, which is another element of hope that this direction will prevail among politicians as well.

Government awareness of their obligations as people’s representatives seems to emerge more often in the second half of the nineties in Poland. During Walesa’s term in office, his increasing authoritarian manner disturbed many domestic and international actors. With the election of Kwasniewski, we see less executive interference into the affairs of the legislative, and more cohesiveness on issues of policy and method. In an address to the Sejm, Prime Minister Cimoszewicz acknowledged that “citizens have the right to bring those in government to account for their results and not just for their intentions,” and that “politicians are [in the government] to serve the public that can determine the elections and the makeup of the political authorities.”<sup>6</sup> Even if this may be interpreted as political rhetoric, we can assume that in Poland, politicians at least have a notion of what is expected of them as far as their duties to the electorate goes.

Slovakia is a special case of representation awareness. It is fair to say that with the story of Slovakia, we enter the realm of strong uncertainty regarding representation requirements, a realm in which the differences between Slovakia, as part of the front-runner group of countries, and Bulgaria and Romania are evasive.

Slovak public awareness of the requirements of representation are unsettled for most of the period under discussion. In 1992, the electorate voted into office the political group perceived to represent their strong desire for an independent state, the Movement

for a Democratic Slovakia, led by Vladimir Mečiar. In 1994, voters confirmed into office the Movement for a Democratic Slovakia, credited for having delivered on the independence issue, only two years after national existence. In 1998, the electorate voted the Movement for a Democratic Slovakia out of office when it became increasingly evident that the position the group was taking domestically and internationally was not representative of constituency interests. In the words of a remarkable Slovak personality who likened Slovakia to a “sleeping beauty” ready to get dressed after being awakened, “in the September 1998 parliamentary elections, the citizens of Slovakia made it clear that they did not like the attire that the new state had been wearing.”<sup>7</sup>

Slovakia is a special case of representation awareness because the issue of national aspirations for an independent state cannot be separated from the group who carried it out, nor from the person who was most vocal about independence, Mečiar respectively. Undoubtedly, for many years Mečiar was perceived as a national hero and savior, whether his critics liked it or not. Undoubtedly, his personal charisma and popularity raised the profile of the political group he headed, and legitimized actions that his government took while in office.

It is important to remember that from the standpoint of representation, Mečiar was elected in 1992 and in 1996 as a result of his pro-independence views and his popularity as a leader who had the country’s best interests at heart. Throughout his term in office, he was persuasive about the appropriateness of the policies he pursued, whether they were veiled pro-Russian, or anti-West. From the standpoint of representation, Mečiar and his Movement for a Democratic Slovakia claimed and convinced voters that he and his group were the best alternative for the country.

This aspect is important when we discuss constituency awareness of the requirements of representation, as well as government awareness of their duties towards those they represented. Even if many international scholars would argue that Mečiar was using populist tactics to win votes, in reality he was and remains very popular in Slovakia. Even after his defeat at the polls in 1998, when he lost his bid for the Presidency to Rudolf Schuster, he publicly acknowledged that he thought he was doing the right thing for his country.

The major evident mistake of his years in power came in 1997, with the holding of a national referendum on the question of joining NATO and on direct presidential elections. The manner in which the referendum was spoiled, with the removal of the question on direct presidential elections without the approval of the Constitutional Court was too evident for constituencies to ignore. After the failed referendum, constituency awareness about the manner of politics became more astute, and voters became more demanding of their politicians. Additionally, civic group action to publicize the mistakes and manipulation of public sentiment by the government in power became more intense. In 1998, Mečiar lost his bid for the presidential position.

It is somewhat unfair to reduce the story of Slovak awareness of the requirements of representation to the story of Mečiarism. However, even insiders to these dramatic events acknowledged that the country was very much taken with the populism of its leader.

Fortunately, there were other, more representation prone positions among politicians as well, indicating that a minimum of recognition of government responsibilities towards constituency existed. President Kovac assessed the position of the government

vis-a-vis the population in 1996 as one of a return of political elites of “privileged individuals who proudly rule citizens regardless of their essential interests and the preservation of justice in the state,” a situation that was generalized under the communist rule. The President referred to the fact that “grand politics” was becoming increasingly detached from the everyday needs and preoccupations of the people, and as a result, “skeptical views are being spread in society not only about individual politicians, but about [democratic] politics as a whole.”<sup>8</sup> Media analysis warned many times that Slovakia was still living “mentally in communism which taught people to believe that political power is allowed to do anything, that it can reward and punish people for nothing. Mečiarism pretended that it could anything bad that comes to its mind.”<sup>9</sup>

On the other hand, when the patience of the electorate ran thin and the tables were turned on HzDS and its leader, Slovaks were given credit for having said “no” to Meciar’s politics in 1998.<sup>10</sup>

It is fair to say that the Slovak case is complex from the standpoint of representation. On the one hand, the governments in power between 1992 and 1998 acted on the popular demand for the slower introduction of a market economy. On the other hand, the governments in power used populist tactics and influence over the national media channels to influence the popular choice for a slower strategy for the introduction of a market economy. On the one hand, some layers of the population were aware that the government was using its political influence to guide the popular choice; civic group demonstrations and protests were registered starting in 1993. On the other hand, it took the country five years of semi-authoritarian governance to vote out manipulative leaders. The real test of representation for Slovaks will be to create a stronger link between the

government currently in office and the constituency, in explaining the policies that are being followed and the need for patience in order for reforms to work. Without that type of communication and government-voters link, Mečiar or other politicians of his orientation may win the voters confidence again with populist tactics and promises that cannot be delivered. Representative democracy may not yet be ripe for Slovakia.

Bulgaria and Romania remain the major question marks regarding the direction of democracy in the region from a representation standpoint. As noted in chapter eight, these two countries were not deemed yet ripe for an analysis of representation.

Conceptually, the decision not to perform a representation analysis came as result of the visible failure of successive government officials in both countries to respond in a convincing manner to their constituencies calls for reform. Bulgaria may be ready for such an analysis in the next four to five years, if the government stays the course of reform and listens to its publics' calls. The Romanian government, however, has not yet started to be responsive.

In many ways, it is a shame that a representation analysis for these two countries could not be elaborated in this study. Constituencies in both countries proved on several occasions that they understand and exercise their right to call the government to accountability. Bulgarians and Romanians voted government officials out of power, as did their better-off neighbors to the West. Civic and labor groups staged many demonstrations throughout the entire period under discussion demanding real change and real democracy, probably with more persistence and intensity of action than in Poland or the Czech Republic. Awareness of their power to hold the government accountable for its policies and actions seems to be present in both countries.

Unfortunately, constituencies in both countries also displayed considerable immaturity in their electoral decisions. The inability of both constituencies to distinguish the electoral choices that could have offered them more viable economic programs led them to making the wrong choices. Both Bulgaria and Romania legitimized former communists in power at the polls. In both countries mass demonstrations were staged as a result of the deleterious policies followed by their chosen representatives.

Poland is a case which could be brought forth as proving that former communists in power are not necessarily a recipe for economic disaster. However, Poland voted former communists in power after their economic reform program was underway, when legislation, institutions, and new structures were functional and the clock of reforms could no longer be set back. Not the same happened in either Bulgaria or Romania. Communists were legitimized into power in the beginning of the transition period, and stayed there for most of the period under discussion.

An argument can be made that in both Bulgaria and Romania, the communist regimes were harsher than in the front-runner countries, therefore these countries' starting point in the transition to a market economy was much behind the other countries in the region economically, as well as emotionally. However, this argument does not explain the fact that despite the harsh times under communism, constituencies returned former communists to power.

A more likely explanation for this puzzling choice is the argument made in favor of deferring a representation analysis, that is for the period under analysis, neither country was ready for the complex requirements of representation. Publics were either unable to discern at the polls which political groups could have imposed a more determined

economic program, or they were led to believe that the former communists had good programs to implement. There are studies who argue that the choice of former communists in both countries was prompted by the populations' fears of the unknown economic system proposed by more market economic oriented groups, or were led to believe that the former communists had better, sounder plans than their opponents. In either case, publics who favored the introduction of a market economy failed to select market-oriented representatives to represent their interests in the government. This is a strong indicator that Bulgarians and Romanians were unable to match public policy preferences with the available political choices in the period under discussion.

In the next decade, it may be possible to set up a representation analysis for both countries. Bulgaria is starting to look promising in terms of government decisiveness to carry out popularly endorsed market reforms. Romania is not only lagging behind, but it is also showing signs of sinking further in its economic recession. Recent estimates place Romania on a par with Zimbabwe and the Ivory Coast in candidacy for going to default in the year 2000.<sup>11</sup> Worse still, after changing three Prime Ministers since 1996, the Constantinescu administration is not finding the political decisiveness to act on economic reform.

The above summary of events, attitudes, and public positions by both publics and governments in Eastern Europe indicates that, as expected, in the beginning of the period of transition there was less government readiness to accept the responsibilities of representation, and more public drive towards holding governments accountable for their policies and behavior. Towards mid-nineties, governments seem more prone to acknowledge their obligations towards constituencies.



This finding is critical to the manner in which any researcher should approach Eastern Europe. It has been held for some time that constituencies do not have the intellectual or cultural education necessary for a viable democracy to function in the region. Publics have been viewed as marginally instrumental in the affairs of politics, and lacking the background of democratic politics to be involved in a relevant manner in how governments make decisions that affect everybody's future. Conversely, governments have been viewed as more responsible than the present analysis indicates.

The truly remarkable element of this analysis is the fact that as time went by, and publics continued to hold governments accountable, either through elections or by other channels of civic demonstration, governments started to get the message. In the second half of the nineties, we observe less government obliviousness to the public voice, and more government engagement in explaining policies to their constituencies and justifying their choices. This makes the point that Eastern Europe is becoming more aware and responsive to requirements of representative governance, and rules out the view that the region is not yet ready for representative democracy.

### METHODOLOGICAL CONCLUSIONS

In chapter three, we have discussed the methodological difficulties that Western analysts have in the application of the representative democracy model to traditional democracies. Congruence, causality, and other various approaches to test theories of representation have been experimented for over four decades, with little agreement on the successful application of one statistical model over another.

Recognizing these traditional difficulties, this study has applied a more modest methodological framework. In essence, the interpretive analysis offered here used available micro and macro-economic data and ratings of transition progress to describe the course and outcome of economic policies of each case study. It then used public opinion approval ratings of the course of economic development to observe the interplay between approval ratings and outcomes of economic policies. It then used complementary pollsters to substantiate or refute observed trends.

Lastly, since the macro-economic indicators and opinion pollsters did not always offer sufficient insights into the relationship between governments and their constituencies, the after-the-fact representation model was explored. Patterns of voter behavior towards incumbents were analyzed in conjunction with the pace of reform, the pace of economic growth, and of other available data.

While testing of theories was not performed using the available statistical data, the analysis allowed for interpretation of events from different perspectives. In so doing, we did not limit the possible explanations to a set of possible outcomes, but rather explored outcomes that are more counterintuitive.

This approach to the study of Eastern Europe is viewed by this researcher as critical to a thorough analysis of where the region is headed. Statistical analyses are valuable analytical tools, but they limit the choice of interpretation to degrees of reliability, statistical relevance, or fitness of models. A less ambitious approach from the standpoint of accuracy and reliability, but more broad from the standpoint of how different data sources interplay with one another is likely to highlight aspects that are relevant and critical to the development of the region.

One of the reasons why this author is skeptical of evaluating the region solely on the basis of statistical approaches is because many of the events in the region are influenced by people's perceptions. That is a notoriously difficult category to quantify. In addition, perceptions about performance have suffered in Eastern Europe, as in traditional democracies, from media campaigns, the most recent events that impact on people's emotions, and lack of comparative information.

The story of Slovakia makes the case against statistical approaches or fitness of models better than any of the other cases we looked at. If numbers mean what they say they mean, Slovakia would be a beautiful case of representation, and of growth of the electorate into higher stages of demand over their representatives. However, an analysis of various data combined with a critical look at events reveal that government manipulation and voter ignorance can be well masked by good indicators of economic performance and of public approval of government action.

Slovakia is a strong case in favor of modesty about our methodological approaches to the region, and about the conclusions we draw from available data. Bulgaria and Romania are in the same category. In all three countries, there is a danger of oversimplifying the actual course of events due to what the data says the events are. Interpretive approaches give the researcher more freedom to use complementary, non-quantitative data to see how trends can be interpreted, and in which direction the region is moving.

## REGION SPECIFIC CONCLUSIONS

Having shown that representation is a conceptually appropriate category to use in analyses of Eastern Europe, what are the factors affecting it and how can we best summarize the manner of representation currently occurring in the region?

For the selected policy, the introduction of a market economy, chapters four through eight indicate that a minimum of three variables that are likely to affect government representation of constituency interest in Eastern Europe. They are: the existence of an initial reform program, elaborated at the outset of transition as a guiding light to take the country into the desired economic system; the consistency of application of the reform program; and government decisions taken in conditions of coalition governments. We shall discuss each of these variables in turn, to draw conclusions on the manner in which they affected representation of the popularly desired economic system in the region.

### Initial Economic Program

The existence of an initial reform program which takes into account public views on the direction of the country was a requirement for short and medium-term government credibility. In each of the cases analyzed, the public started out by supporting the introduction of a particular economic system, a market economy. In some cases, public support was stronger, relative to the region (Poland versus Romania or Bulgaria).

In all the front-runner countries analyzed in this study, an initial program of reform was formulated and passed through the legislatures of each country. In Slovakia, the reform program was adopted under the conditions of the Czechoslovak Federation. After

the separation of the two republics, Slovakia did not adopt a new program, but slowed down considerably the application of the one inherited from the Czech Republic.

In Poland, the Balcerowicz plan was adopted by the end of 1989, and its implementation started in early 1990. In Hungary, the Kupa plan was enacted starting in 1990.

Bulgaria and Romania alone struggled with the formulation of a reform program until 1991 and 1992. It should be noted that the absence of a reform plan did not prevent these countries from introducing measures of liberalization, in order to conform with World Bank and IMF conditions for the granting of loans. However, price and trade liberalization were not matched by investment legislation, or a medium to long-term plan of reform. The lack of vision de-legitimized the notion of a market economy for constituencies, and created false expectations for the society at large.

The formulation of an initial reform program versus absence of such program makes the case for the importance of this variable for representation in the region. In those countries in which governments took their constituencies' demands for the introduction of a market economy seriously, the reform program was formulated and adopted fairly early in the transition. As a result, these countries had a head-start on the reform of their economies and could claim to have acted on popular demands. In those countries in which the reform program was adopted with delay, like Bulgaria and Romania, the economies did not grow, the general economic situation worsened, and the legitimacy of the notion that a market economy was diminished by the under-performing system.

### Consistency in Application of the Reform Program

In most cases that were analyzed in this study, public support for the particular policy declined with time. We considered alternative hypotheses found in the literature for this decline. From job insecurity, to hardships in transition, to more counterintuitive considerations like those proposed by Przeworski (see the decline of support likened to the diminished interest of a patient to continue medication once the condition of his/her health improve), a variety of factors can claim to have influenced the decline of public support for the selected policy.

This researcher found that if a reform program is formulated at the outset of transition, but it is inconsistently applied, the program is likely to produce lesser results than expected. Under the conditions of a post-communist stressed society, lesser results can and will be interpreted as political incompetence or lack of willingness to reform. In either case, popular support and trust in both the government who pursued non-performing policies and in the policies proposed will be lower than in a well-performing environment. The second variable found to have made a difference in the transition to a new economic system is consistency in the application of the reform program.

Consistency can be measured by the manner in which newly elected governments chose to continue the program of their predecessors, or elaborate new strategies and plans and abandon the initial plan.

The only front-runner country in Eastern Europe in which the initial reform program was consistently applied, irrespective of initial deleterious effects on the population is Poland. Despite the political instability of the first years of transition, and of the fact that the author of the program lost his government position in the political

reshuffling of the early nineties, Polish governments pursued the same Balcerowicz plan through the nineties. Even when the Socialists came to power in mid-nineties the program was maintained. As an interesting turn of events, Poland finished the nineties with Balcerowicz back in the government, as a Deputy Prime Minister and Minister of Finance, as a recognition of the powerful influence that his economic program had on the course of the country.

The consistent application of the Balcerowicz program led to economic growth very early in the transition, earlier than any of the other front-runner East European countries. Growth in turn led to sustained public support for the introduction of a market economy. Fluctuations in public support were witnessed, but at the end of the period under discussion, Poles were as much in favor of the program of reform as in the beginning.

Not the same consistency of application of the reform program was observed in the other countries. In Hungary, the gradual approach led to dissatisfied constituencies early in the transition period. In the medium-term, gradualism proved to have been a not very happy solution for reforming the economy. In addition to non-performance, gradualism postponed inevitable austerity measures which were eventually taken several years into the transition, when the population was already exhausted by an ailing economy.

In the Czech Republic, the program of reform was applied in bursts, with interruptions, and in an inefficient manner. The voucher privatization scheme was launched, then it was halted, then it was re-launched with changes that allowed corruption to flourish and turned the population against vouchers altogether. The restructuring of major loss-making industrial enterprises was postponed for several years, allowing these

enterprises to drain the budget further. Legislation that enabled banks and other financial institutions to become joint ventures in fact conserved the state-ownership structure and postponed the introduction of a modern, efficient banking system.

In neither Hungary nor the Czech Republic did we notice the maintenance of the public support for the introduction of a market economy that we have noted in Poland. The strongest discriminator that this researcher finds in the manner in which all three countries approached their mandate is the consistency of the application of the reform program. Polish governments did not waver in the application of the initial program; Hungary and the Czech Republic did. Poland did not significantly change its initial program; Hungary and the Czech Republic did. Poland did not lose popular support for the initial program; Hungary and the Czech Republic did.

This speaks for the fact that representation was affected by the consistency with which governments applied the program of reform in these countries. The initial program existed in all three countries, but was implemented with various degrees of consistency. The country in which the governments stayed the course retained its popular appeal as representing publics' interest for reform.

It is worth making a side note regarding the quality of the initial reform program. The Balcerowicz plan was a shock therapy approach to reform the economy and launch it on the path of a market economy. The plan was explained to the population, with all its negative effects in the short-term, and its expected benefits in the medium to long-term. The plan produced the expected short-term negative effects (unemployment sky-rocketed and purchasing power decreased significantly, to name only a few), but it also brought about the expected growth. The plan was well-thought through and well-explained, so



that publics could identify the effects of the program when they occurred. The government's credibility was highly enhanced by this strategy, and the level of endurance and patience of the population was secured.

The gradual approach was thought to introduce necessary reforms at a slow pace to minimize the negative effects on the population. The program was explained to the population from the standpoint of having everybody's best interests at heart, as a sensible approach in which nobody was going to be left behind in the process of reform. When the expected effects did not materialize and in fact the large majority of Hungarians were affected by the reform program, the credibility of the government as having everybody's best interests at heart was greatly diminished.

While economists and political scientists still argue about the appropriateness of shock therapy over gradualism, the reality is that the country which secured growth the fastest is the country which implemented the shock therapy approach. This is not the place to pass judgement on which approach is more appropriate; suffice it to point out that the countries which did not chose the shock therapy approach had a harder time bringing about economic growth.

#### Government Decisions Taken in Conditions of Coalition Governments

Throughout the region, economic and social aspects of post-communist life were marked by the fact that politically, countries were run primarily by coalitions, rather than by strong programmatic parties. The absence of strong programmatic parties should not be surprising; in all of these countries, communism stifled political culture of a multi-party dimension for over forty years, and opposition to communism was primarily at the social,

cultural, or most likely individual level. Political entities, wherever they tried to get organized, were stifled, destroyed, or their impact on social life minimized. As a result, post-communist parties were small, weak, with a relative and not necessary loyal degree of popular support. Financially, most depended on grants from the government to get established.

When elections took thus place, single parties did not, and could not muster enough support to become viable government parties. They had to enter into coalitions with like-minded political groups. While this development is not necessarily bad in itself, it led to a fragmentation of political decisions once the government was sworn in. Political ambitions, struggle for power, disagreements inherent into a body politik that had too many points of views left these governments weak and indecisive.

In Poland, observers noted how the long-admired and effective political struggle of Solidarity against the communist regime did not translate into an equally effective political decision-making process after they gained seats in the Sejm, in 1990. Later, in 1998, desperation that the Socialists would win the parliamentary elections again pushed several parties to unite into the Solidarity Electoral Action. United, five parties made into the government, but were less effective at reaching agreements on governing issues.

In the Czech Republic, the effectiveness of the government was affected by the disagreements within the governing coalition as well. The inability of Klaus and Zeman to agree to disagree have plagued Czech politics since 1996. Their personal enmity spilled into their governing manner, and led to a stalemate and early elections in 1998. It further prompted civic groups to demand their resignation starting in 1999.

In Slovakia-after-Mečiar, members of the 1998 ruling coalition admitted that the effectiveness of the government was low, and losing credibility by its voters, due to the fact that so many points of view were expressed inside the ruling body. While respecting the right to express an opinion and offer alternative views is inherent in a democracy, East European governments did not develop consensus-building effectively enough to become credible governments. As a result, they were voted out of office. Their bickering, political in-fighting, corruption scandals, and lack of cohesion on critical economic and social issues turned voters towards alternatives, whether those alternatives were called Socialists or Nationalists.

As we can see, throughout the region, the presence of coalition governments has been a blessing in disguise. While on the one hand, the possibility of having a coalition empowered political groups to gain legislative and executive power, on the other hand it weakened their ability to make decisions. That happened primarily because coalitions were glued together by the desire to oppose another political group (former communists, socialists, extremists, or incumbents), rather than by a common agenda, previously agreed to. In turn, the weakness of political decisions affected the way representation of people's best interest occurred.

The three variables found to have affected government representation of people's interests in Eastern Europe are summarized in Table 22 below.

**Table 22.--Variables affecting representation in Eastern Europe**

<b>Country</b>	<b>Initial Reform Program</b>	<b>Consistency in Application</b>	<b>Coalition government</b>
Czech Republic	Yes	No	Yes
Hungary	Yes	No	Yes
Poland	Yes	Yes	Yes
Slovak Republic	Yes	No	Yes

This summary highlights the fact that the differentiating factor in representation of constituency interest on the question of a market economy was the consistent manner in which governments applied the economic program conducive to the introduction of a market economy. The country in which the consistency condition was fulfilled is the country in which the government proved to be the most responsive and representative of constituency interests, Poland respectively.

### Closing Thoughts

The process of democratization is likely to continue in Eastern Europe, with various degrees of recognition by both the makers of the process, and the outsider scholars analyzing it. It remains indisputable that this process will take much more time than originally anticipated. It is becoming increasingly evident that the process is not predictable, and that reversal trends are likely. Democratization will continue to witness changes that may, or may not be analyzable with analytical tools of traditional democracies. Therefore caution needs to be exercised in drawing conclusions about the direction of the region, or of individual countries, particularly when those conclusions may be policy relevant.

Particular awareness needs to exist with respect to the effects of reductionist theories of the 'political culture' type. If used to exhaustion, these arguments can only harm the on-going process of democratization in the region. Teleological interpretations of the processes in the region merely reduce the story of Eastern Europe to uninteresting, but predictable dichotomies ('if you are on this side of the Huntingtonian civilizations line, you are/not likely to become democratic').<sup>12</sup> As Rose has many times recommended, if a modicum of democratic practices can be detected, the position that analysts should take is less to criticize what has not been accomplished but recognize what has actually taken place away from positions of authoritarianism.

Many variables influence the democratization process in the region. Even if a comprehensive list could be compiled, that still leaves us with the question of which variables count more or less in what is happening in the region. Even if an acceptable ranking of variables can be compiled, from more to less likely to be driving forces in the developments in the region, how do we test their strengths? Regression analyses may be appropriate and useful in the study of international relations; applied to democratization processes, regression is likely to offer misleading answers. That happens because the air of infallibility with which regression is still treated in the discipline. A more modest approach as the one used in the present study may not offer predictable answers, but it will give a sense of direction and depth of the processes that are currently taking place.

Theories are good guides, caution needs also to be applied in considering new democracies in relation to, or vis-a-vis an ideal of democracy called Western democracy. Italy is considered a democracy; but their political system is more corrupt and less stable than any of those discussed in this study. Turkey and Greece are NATO members on

account of their success in establishing some type of political and economic system that conforms to NATO requirements. They have also come close to fighting each other many times since their acceptance into NATO, and have both proven in one manner or another that they are not nearly as democratic as their West European partners.

Regionally, a conglomerate of conditions and situations can explain why events happened in the manner in which they did. There is, however, no guarantee that if the Czech Republic and Hungary followed exactly the policy line that Poland used, they would have had the same pace of development as Poland. Large trends can be observed, but they do not guarantee any prescription for success in the transition to a democracy.

We can close this study by saying that governments in Eastern Europe did attempt to transform the economy to a market economy, in keeping with the popular mandate. The task, however, proved too daunting and complex to produce results that were immediately favored by constituencies.

This willingness to change indicates that governments were responsive to their constituencies, but were either unprepared or lacked enough political cohesion to make a more substantial difference in the manner in which economic policies were conducted. It should be remembered that a market economy does not grow in a few years even if, ideally, the best reforms are put in place and made to work, and even if, ideally, attitudes and work styles change over night.

## NOTES TO CHAPTER IX

1. "Czech Republic: Government Issues Draft Policy Statement," *FBIS-EEU-96-142* (July 13, 1996).
2. "Havel: Society Lacks Personalities to Progress," *FBIS-EEU-1999-0929* (September 29, 1999).
3. Oltay, p. 78.
4. Jerzy Szmajdzinski (delegate to the SLD Congress), quoted in "Polish SLD on Eve of Congress Eyed," *FBIS-EEU-1999-1210* (December 9, 1999), [http:// WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi](http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi).
5. Leszek Moczulski, leader of KPN, condemning a faction within KPN led by Adam Slomka, quoted in "Parties Prepare for Elections," *FBIS-EEU-96-112* (March 30, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
6. "Prime Minister Cimoszewicz's Address."
7. Bútorá and Bútorová, p. 80.
8. "President's State of the Nation Address," *FBIS-EEU-96-240* (December 11, 1996), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
9. "CTK Carries Slovak Press Survey for 21 July," *FBIS-EEU-1999-0721* (July 21, 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
10. President Rudolf Schuster in "Schuster, Havel Discuss Czech-Slovak, Personal Relation," *FBIS-EEU-1999-0917* (September 17, 1999), <http://WNC.FEDWORLD.GOV/cgi-bin/retrieve.cgi>.
11. *Financial Times*, 21 April 2000, p. 10.
12. The political culture argument is grounded in a legitimate concern about the ability of some countries to overcome legacies of communism, ethnic hatred, lack of tolerance for differing religious values, etc. While valid claims can be made that all this 'baggage' holds some countries back from democratizing faster, particularly in Southeastern Europe and the Balkans, the political culture argument falls short of being determinist. This argument cannot adequately explain change when it does occur, nor can it account for differences in democratization among the countries within the region.

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## VITA

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